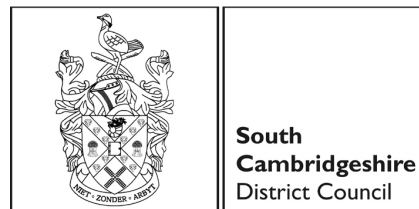


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13 March 2014

To: Chairman – Councillor Francis Burkitt  
Vice-Chairman – Councillor David McCraith  
Members of the Corporate Governance Committee – Councillors Richard Barrett,  
Andrew Fraser, Douglas de Lacey, Bridget Smith, Peter Topping, John Williams,  
Simon Edwards and David Whiteman-Downes

Quorum: 3

Dear Councillor

You are invited to attend the next meeting of **CORPORATE GOVERNANCE COMMITTEE**, which will be held in **SWANSLEY ROOM, GROUND FLOOR** at South Cambridgeshire Hall on **FRIDAY, 21 MARCH 2014 at 9.00 a.m.**

Members are respectfully reminded that when substituting on committees, subcommittees, and outside or joint bodies, Democratic Services must be advised of the substitution *in advance of* the meeting. It is not possible to accept a substitute once the meeting has started. Council Standing Order 4.3 refers.

Yours faithfully  
**JEAN HUNTER**  
Chief Executive

**The Council is committed to improving, for all members of the community, access to its agendas and minutes. We try to take all circumstances into account but, if you have any specific needs, please let us know, and we will do what we can to help you.**

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<b>AGENDA</b>		<b>PAGES</b>
<b>1. Apologies for Absence</b>	To receive apologies for absence from committee members.	
<b>2. Declarations of Interest</b>		
<b>3. Minutes of Previous Meeting</b>	To confirm the minutes of the meeting held on 28 November 2013 as a correct record.	<b>1 - 4</b>
<b>AUDIT REPORTS</b>		
<b>4. Internal Audit Progress Report 2013-14</b>		<b>5 - 10</b>
<b>5. Internal Audit Plan for 2014-15</b>		<b>11 - 44</b>
<b>6. External Audit: 2012/13 Annual Grant Certification Report</b>		<b>45 - 52</b>

- |    |   |         |
|----|---|---------|
| 7. | <b>External Audit: Audit Plan 2013-14</b>             | 53 - 72 |
| 8. | <b>External Audit: Council's Fraud Briefing</b>       | 73 - 86 |
| 9. | <b>External Audit: Local Government Sector update</b> | 87 - 94 |

**DECISION ITEMS**

- |     |                                 |          |
|-----|---------------------------------|----------|
| 10. | <b>Risk Management Strategy</b> | 95 - 126 |
|-----|---------------------------------|----------|

**INFORMATION ITEMS**

11. **Regulation of Investigatory Powers Act 2000 (RIPA) Review of Policy and Use of Power Act**

The Committee are asked to **NOTE** that there have been no RIPA authorisations in this quarter.

12. **Matters of Topical Interest**

13. **Date of Next Meeting**

To note the following meeting dates:

- 27 June 2014 at 9am
- 26 September 2014 at 9am

To agree the following meeting date:

- 27 November 2014 at 10am

**OUR LONG-TERM VISION**

South Cambridgeshire will continue to be the best place to live, work and study in the country. Our district will demonstrate impressive and sustainable economic growth. Our residents will have a superb quality of life in an exceptionally beautiful, rural and green environment.

The Council will be recognised as consistently innovative and a high performer with a track record of delivering value for money by focusing on the priorities, needs and aspirations of our residents, parishes and businesses.

**OUR VALUES**

We will demonstrate our corporate values in all our actions. These are:

- Trust
- Mutual respect
- A commitment to improving services
- Customer service

## **GUIDANCE NOTES FOR VISITORS TO SOUTH CAMBRIDGESHIRE HALL**

### **Notes to help those people visiting the South Cambridgeshire District Council offices**

While we try to make sure that you stay safe when visiting South Cambridgeshire Hall, you also have a responsibility for your own safety, and that of others.

#### **Security**

When attending meetings in non-public areas of the Council offices you must report to Reception, sign in, and at all times wear the Visitor badge issued. Before leaving the building, please sign out and return the Visitor badge to Reception.

Public seating in meeting rooms is limited. For further details contact Democratic Services on 03450 450 500 or e-mail [democratic.services@scambs.gov.uk](mailto:democratic.services@scambs.gov.uk)

#### **Emergency and Evacuation**

In the event of a fire, a continuous alarm will sound. Leave the building using the nearest escape route; from the Council Chamber or Mezzanine viewing gallery this would be via the staircase just outside the door. Go to the assembly point at the far side of the staff car park opposite the staff entrance

- **Do not** use the lifts to leave the building. If you are unable to use stairs by yourself, the emergency staircase landings have fire refuge areas, which give protection for a minimum of 1.5 hours. Press the alarm button and wait for help from Council fire wardens or the fire brigade.
- **Do not** re-enter the building until the officer in charge or the fire brigade confirms that it is safe to do so.

#### **First Aid**

If you feel unwell or need first aid, please alert a member of staff.

#### **Access for People with Disabilities**

We are committed to improving, for all members of the community, access to our agendas and minutes. We try to take all circumstances into account but, if you have any specific needs, please let us know, and we will do what we can to help you. All meeting rooms are accessible to wheelchair users. There are disabled toilet facilities on each floor of the building. Infra-red hearing assistance systems are available in the Council Chamber and viewing gallery. To use these, you must sit in sight of the infra-red transmitter and wear a 'neck loop', which can be used with a hearing aid switched to the 'T' position. If your hearing aid does not have the 'T' position facility then earphones are also available and can be used independently. You can get both neck loops and earphones from Reception.

#### **Toilets**

Public toilets are available on each floor of the building next to the lifts.

#### **Recording of Business and Use of Mobile Phones**

We are open and transparent about how we make decisions. We allow recording, filming and photography at Council, Cabinet and other meetings, which members of the public can attend, so long as proceedings at the meeting are not disrupted. We also allow the use of social media during meetings to bring Council issues to the attention of a wider audience. To minimise disturbance to others attending the meeting, please switch your phone or other mobile device to silent / vibrate mode.

#### **Banners, Placards and similar items**

You are not allowed to bring into, or display at, any public meeting any banner, placard, poster or other similar item. Failure to do so, will result in the Chairman suspending the meeting until such items are removed.

#### **Disturbance by Public**

If a member of the public interrupts proceedings at a meeting, the Chairman will warn the person concerned. If they continue to interrupt, the Chairman will order their removal from the meeting room. If there is a general disturbance in any part of the meeting room open to the public, the Chairman may call for that part to be cleared. The meeting will be suspended until order has been restored.

#### **Smoking**

Since 1 July 2008, South Cambridgeshire District Council has operated a Smoke Free Policy. No one is allowed to smoke at any time within the Council offices, or in the car park or other grounds forming part of those offices.

#### **Food and Drink**

Vending machines and a water dispenser are available on the ground floor near the lifts at the front of the building. You are not allowed to bring food or drink into the meeting room.



# Agenda Item 3

## SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL

Minutes of a meeting of the Corporate Governance Committee held on  
Thursday, 28 November 2013 at 10.00 a.m.

PRESENT:	Councillor Francis Burkitt – Chairman Councillor David McCraith – Vice-Chairman	
Councillors:	Douglas de Lacey John Williams	Bridget Smith
Officers:	Patrick Adams Alex Colyer Fiona McMillan	Senior Democratic Services Officer Executive Director, Corporate Services Legal & Democratic Services Manager and Monitoring Officer
External:	Rachel Brittain Crabtree	Ernst & Young Peterborough City Council

Apologies for absence were received from Councillors Richard Barrett and Peter Topping.

### 21. DECLARATIONS OF INTEREST

None.

### 22. MINUTES OF PREVIOUS MEETING

The minutes of the meeting held on 20 September 2013 were agreed as correct record, subject to the following amendments:

- The following sentence be included in item 13: "Councillor John Williams suggested that the Asset Management Plan, including the disposal and acquisition of property, should be included in the Internal Audit Plan for 2015/16."
- The words "(FONT SIZE INCORRECT)" be removed from item 16.
- The structure of the second paragraph in minute 17 be amended to include three bullet points and the word "assured" altered to "reassured".

### 23. INTERNAL AUDIT PROGRESS REPORT

Steve Crabtree presented this report, which updated the Committee on progress made against the delivery of the 2013/14 Internal Audit Plan. He explained that Megan Russell, who had been appointed as the Council's Internal Auditor, was unable to attend this meeting, but would be present at the next meeting in March.

Steve Crabtree explained that the three remaining audits initiated by RSM Tenon had been concluded with no concerns identified. He further explained that the audit on Proactive Fraud Work had focused on procurement and tender exercises and he had no concerns to report.

Steve Crabtree stated that he was satisfied with the systems in place for Payroll. It was noted that it was possible that areas such as Payroll, which were currently audited annually, could be audited once every two years in future.

**Complaints procedure**

It was noted that the Council's complaints procedure was currently being audited and the auditors would be focussing on the process and not on individual cases. It was understood that there was a difference between a service request to fix a problem and a complaint. It was agreed that Councillor Kevin Cuffley should liaise with Steve Crabtree regarding a complaint that had not been processed efficiently.

**Audit Planning 2014/15**

It was noted that a draft Plan would be circulated to Executive Management Team on 26 February 2014. It was agreed that the plan should then be e-mailed to all members of the Committee and copied to all other councillors for their comments. The Plan would then be agreed at the next meeting of the Committee in March.

The Committee **NOTED** the report.

**24. EXTERNAL AUDIT: ANNUAL AUDIT LETTER**

Rachel Brittain presented the Annual Audit Letter to the Committee, which highlighted the key issues resulting from audits relating to 2012/13. It was noted that the Letter concluded that there were no areas of concern to report to the Committee.

It was understood that the audit on Housing Benefit Claims, which was investigating the period to the end of the month, would be reported at the next meeting of the Committee in March. It was noted that only two minor issues had been discovered so far, and whilst under the Department of Work and Pensions rules this meant that a qualified opinion had to be given, Rachel Brittain assured the Committee that she had concerns regarding this audit.

The Committee **NOTED** the Annual Audit Letter.

**25. MATTERS OF TOPICAL INTEREST****Housing Company Pilot Scheme**

In response to questioning the Executive Director explained that the proposed Housing Company, which Council was being asked to set up that afternoon, would be a limited company, to protect the Council from any liability, but it would still be subject to the same audit scrutiny as any other area of the authority.

**Annual Governance Statement**

It was noted that the draft Annual Governance Statement would be discussed at the next meeting of the Committee in March. The Chairman stated that he had reviewed some other Council's Annual Governance Statements (including Westminster, Guildford, Cornwall and Birmingham) and made two points:

- a) Unlike the Council they had no section in their Statement which reviewed performance against the authority's stated aims. After a discussion, it was agreed that next year we would mirror those other councils and include a link to the separate performance document included in the Statement.
- b) The Annual Governance Statement was included within their annual accounts as part of the explanatory forward. After a discussion, it was agreed that we would do the same next year, although the Statement, as extracted from the explanatory forward, would also be published as a separate document on the website.

**26. REGULATION OF INVESTIGATORY POWERS ACT 2000 (RIPA) REVIEW OF POLICY AND USE OF ACT**

The Committee **NOTED** that there had been no RIPA authorisations in the last quarter.

**27. DATES OF NEXT MEETINGS**

The Committee agreed the following meeting dates:

- Friday 21 March 2014 at 9am
- Friday 27 June 2014 at 9am
- Friday 26 September 2014 at 9am
- Thursday 27 November 2014 at 10am (will only go ahead if deemed necessary)

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**The Meeting ended at 11.00 a.m.**

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**SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL**

**CORPORATE GOVERNANCE COMMITTEE**

**21 MARCH 2014**

**INTERNAL AUDIT PROGRESS REPORT FOR 2013 / 2014**

**RECOMMENDATION:**

**That Corporate Governance Committee note progress in delivery of the Internal Audit service to the Council.**

Report Author:	Steve Crabtree
Position:	Shared Head of Internal Audit (for Peterborough UA / Cambridge City / South Cambridgeshire Councils)
Contact:	Peterborough Office: 01733 384557 Cambridge Office: 01223 458181 South Cambridgeshire Office: 01954 713452

**PROGRESS REPORT**

1. Introduction
2. Progress Against Agreed Audit Plan

**1. INTRODUCTION**

- 1.1 The purpose of this report is to bring the Corporate Governance Committee up to date with progress made against the delivery of the 2013 / 2014 Internal Audit Plan. This report aims to:
  - Provide a high level of assurance, or otherwise, on internal controls operated across the Council that have been subject to audit;
  - Advise the Committee of significant issues where controls need to improve to effectively manage risks;
  - Advise of any planned changes to reviews, slippage or deletions to that originally agreed on 19 March 2013; and
  - Track progress on the delivery of agreed actions which will be reported as part of the annual reporting process.
- 1.2 The information included in this progress report will feed into, and inform our overall opinion in the Annual Head of Internal Audit Report issued at the year-end. This opinion will in turn be used to inform the Annual Governance Statement (AGS) included in the Statement of Accounts and signed by the Chief Executive and Leader of the Council. The report is for the Committee to consider under its Terms of Reference:
  - To monitor the activities of the Internal Audit service provider and measure performance against the plan; and
  - To consider a quarterly report detailing audit coverage and the extent to which any major problems were highlighted.

**2. PROGRESS AGAINST AGREED AUDIT PLAN**

- 2.1 A number of the activities set out within the agreed Audit Plan are to support the works of External Audit as part of the delivery of a managed audit to avoid the risk of duplication of audit work; and improve the effectiveness, efficiency and economy of both audit teams. The scope for a number of new audit areas have been agreed with senior management and a series of audits have commenced, findings and conclusions of which will be reported at the next meeting. The following analysis details progress up to, and including mid February 2014.
- 2.2 In addition to providing assurance on the current controls, while we have been able to confirm that the majority of systems comply with expected controls, we have also identified a number of areas where efficiencies could be made to the system. We have incorporated these into our reports for management consideration.

### 2.3 Carried Forward from 2012 / 2013

ASSURANCE LEVELS / AGREED ACTIONS (CARRIED FORWARD FROM 2012 / 2013)							
ACTIVITY	JOB TYPE	REP.NO.	STATUS	ASSURANCE	ACTIONS AGREED		
					HIGH	MEDIUM	LOW
Follow Up Arrangements	Follow Up	25	Final	Not applicable	1	7	3
Top Up Testing	Financial Controls	27	Final	Full	0	0	2

2.3.1 Follow up arrangements related to audit reviews undertaken in previous years and covered:

- HR – Absence Management (including Redundancies);
- Housing Maintenance: Planned and Cyclical (including Voids);
- Information Governance;
- Contract Services; and
- Environmental Health (License Fees).

2.3.2 Top up testing provides assurance that the controls in place in the Councils main systems are robust. No concerns were identified.

### 2.4 Audit Plan 2013 / 2014

ASSURANCE LEVELS / AGREED ACTIONS							
ACTIVITY	JOB TYPE	REP.NO.	STATUS	ASSURANCE	ACTIONS AGREED		
					HIGH	MEDIUM	LOW
Welfare Reform Project	Assurance work	In progress					
Business Planning	Assurance work	2	Final	Significant	0	3	0

ASSURANCE LEVELS / AGREED ACTIONS							
ACTIVITY	JOB TYPE	REP.NO.	STATUS	ASSURANCE	ACTIONS AGREED		
					HIGH	MEDIUM	LOW
Corporate Governance (Corporate Complaints)	Compliance	7	Final	Significant	0	2	2
Risk Management	Compliance	10	Final	Significant	0	1	1
Annual Governance Statement	Compliance	Audit deleted following agreement with Executive Director. There were no actions identified within the previous Annual Governance Statement to follow up.					

Income / Debtors	Financial Control	11	Draft issued. Awaiting agreement with management.				
Budgetary Control	Financial Control	Audit brief agreed					
General Ledger	Financial Control	Audit brief agreed					
Creditors	Financial Control	13	Draft issued. Awaiting agreement with management.				
Cash / Bank / Treasury	Financial Control	12	Final	Full	0	0	0
Payroll / Expenses	Financial Control	9	Final	Significant	0	1	4
Capital	Financial Control	Not started					
Procurement	Financial Control	This audit has been incorporated into Creditors above					
NNDR	Financial Control	In progress					
Council Tax	Financial Control	In progress					

ASSURANCE LEVELS / AGREED ACTIONS							
ACTIVITY	JOB TYPE	REP.NO.	STATUS	ASSURANCE	ACTIONS AGREED		
					HIGH	MEDIUM	LOW
Housing Benefits	Financial Control	In progress					
Housing Rents	Financial Control	8	Final	Significant	0	1	1
Top Up	Financial Control	In progress					
Reconciliations	Financial Control	Has been combined into each of the financial systems reviews above rather than revisited each system again.					

Safeguarding	Other	3	Final	Significant	0	4	3
Health and Safety	Other	Brief produced					
Performance Management	Other	Brief produced					
Environmental Health: Waste	Advisory Work	4	Final	n/a	-	-	-
Housing Repairs	Other	In progress					
Housing Allocations / Voids	Other	Fieldwork completed					
Customer Contact Centre	Other	1	Final	Green	0	0	2
ICT (Change Control)	Other	5	Final	Significant	0	2	1
Proactive Fraud Work (Suppliers)	Other	6	Final	Not applicable	0	3	0

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# Agenda Item 5

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**SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL**

**CORPORATE GOVERNANCE COMMITTEE**

**21 MARCH 2014**

**INTERNAL AUDIT PLAN FOR 2014 / 2015**

**RECOMMENDATION:**

**That Corporate Governance Committee endorse:**

- a) The Strategic Audit Plan and the Annual Plan 2014/2015**
- b) The Audit Charter**
- c) The Internal Audit Code of Ethics; and**
- d) The services performance indicators**

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## 1. INTRODUCTION

- 1.1 This is the Internal Audit Annual Plan and Strategy for 2014 / 2015 for consideration by the Corporate Governance Committee. The plan has been subject to consultation with all Directorates, the Executive Management Team and a copy of the plan has been shared with External Audit.
- 1.2 Internal Plans and the associated documents have been established in accordance with best practice as laid down in the Public Sector Internal Audit Standards (PSIAS).
- 1.3 This report provides an overview of the stages followed prior to the formulation of the Annual Audit Plan for 2014 / 2015. The Annual Audit Plan will then serve as the work programme for Internal Audit and provide the basis upon which the Head of Internal Audit (HoIA) will subsequently give Audit Opinions on South Cambridgeshire District Council's (SCDC) system of internal control, and risk management and corporate governance arrangements for 2014 / 2015.
- 1.4 Members' attention is also drawn to the fact that the Audit Charter has been presented for approval. This sets out the Terms of Reference for the service and is aligned against the Public Sector Internal Audit Standards (PSIAS). The foundations of these standards however are not so fundamentally different to those requirements formerly specified in the CIPFA Code of Practice for Internal Audit, although the structure of the Charter must follow a prescribed format which defines the purpose, authority and responsibility of the Internal Audit activity, and clear definitions need to be given of those governance elements fulfilling responsibilities of the 'board' and 'senior management'.
- 1.5 In accordance with legislative, regulatory and best practice requirements, SCDC has made arrangements for a continuous internal audit to examine the accounting, financial and other operations of the organisation.
- 1.6 A number of key supporting papers have also been developed – e.g. Audit Charter (how we work), Code of Ethics (clarity on officer conduct) and Performance Indicators (how we monitor service delivery). In conjunction with these documents, an insight into future audit input envisaged is set out in the Strategy alongside a more detailed analysis of audit assignments lined up for the next financial year.

## 2. THE AUDIT CHARTER

- 2.1 The PSIAS have been primarily introduced to:
- Define the nature of internal auditing;
  - Set basic principles for carrying out internal audit;
  - Establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations; and
  - Establish the basis for the evaluation of internal audit performance and to drive improvement planning.
- 2.2 As part of evidencing that these requirements are being adhered to, there is a duty on the Internal Audit Service to have an Audit Charter which demonstrates how these elements are being handled and managed. The attached Charter covers off the above requirements, acknowledging too that some additional appendices have been needed to give further clarity on important issues such as the Code of Ethics and the Performance Indicators adopted by the Internal Audit function.



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2.3 Finally, there is an obligation under the mandatory standards to review and re-present the Audit Charter to Corporate Governance Committee annually. The Charter has to be re-evaluated to confirm its ongoing validity and completeness, and thereafter, the documentation requires the scrutiny and endorsement of senior management and the Committee. The Audit Charter can be found attached at **APPENDIX 1**.

### **3. CODE OF ETHICS**

3.1 The Code of Ethics sets out the expected behaviours of Internal Audit staff in relation to service delivery and is attached for information at **APPENDIX 2**. The basis of standards of conduct mirrors the obligations as per the PSIAS. Aside from the Code of Ethics, the HoIA in the role of the Chief Audit Executive will also be cognisant of and comply with requirements laid down in CIPFA's Statement on the Role of the Head of Internal Audit, and it is further acknowledged that all Internal Audit staff will operate in accordance with their own professional bodies' Code of Ethics, as well as any organisational Codes of Ethics or Conduct relating to their employer.

### **4. INTERNAL AUDIT PLAN AND STRATEGY 2014 / 2015 (APPENDIX 3)**

4.1 The Internal Audit Strategy has the overarching purpose of establishing how the annual programme of audit assignments has been devised, in terms of the process followed when undertaking the annual audit needs assessment, the risk factors applied and how this information is then used to populate the Annual Audit Plans. The PSIAS recommends Internal Audit undertake annual assessments of the provisions in these areas and this is set out in the document.

4.2 The overarching objective of the Audit Plan is to provide a comprehensive programme of review work, sufficient to enable an informed annual opinion and to develop the organisation's Annual Governance Statement. We have produced an Audit Plan which satisfies the obligations of the PSIAS, and provides an acceptable minimum level of audit coverage capable of generating the requisite audit assurances to the organisation, whilst also being affordable. There are activities identified within the plan where assurance will be obtained from our shared service partners who are the lead authority for certain services. Furthermore, the plan is mapped against the Councils' Corporate Plan to highlight that all key objectives are being reviewed.

4.3 The Internal Audit Plan for 2014/2015 has been developed using a risk-based approach. The plan has been formulated from reviews of the following:

- i) Corporate and service level risks and an assessment of mitigating controls;
- ii) Areas of significant change or concern within the council;
- iii) Key projects / partnerships being undertaken; and
- iv) Discussions with Directors and Heads of Service during the year.

4.4 The Plan has been broken down into a number of elements:

- a) Core Systems Assurance work. This work covers the Council's key financial systems and provides External Audit with assurance on their control;
- b) Annual Governance and Assurance work;
- c) Corporate / Cross Cutting audits;
- d) Departmental specific audits; and
- e) Other resource allocations.

4.5 A small contingency is set aside for special investigation work. If there are any significant additional requests required by Members or officers which leads to the

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potential for resources required exceeding the amount set-aside, then the shared HoIA will establish the course of action to be taken in consultation with the Executive Director (Corporate Services). In the event of this occurring, a separate report will be produced to inform all Members of the Committee.

- 4.6 The results of the work set out in the Internal Audit plan will be the production of the annual opinion by the HoIA for this Committee. This opinion will then inform the Annual Governance Statement which is signed off by the Leader of the Council and the Chief Executive and accompanies the Statement of Accounts, usually to the June committee cycle.
- 4.7 Specific timings for individual audits are still to be agreed with Directors / Heads of Service. The audit plan will then be published on the Council's intranet to enable Officers and Members to be aware of audit timings and advise Internal Audit, at an early stage, if the timetable needs adjusting.

## 5 PERFORMANCE INDICATORS

- 5.1 As part of the ongoing appraisal of the service, various indicators have been set to ensure delivery against best practice and also to monitor individual and service performance. These are set out in **APPENDIX 4** and are referred through Committee as part of the reporting process.

## 6. CONSULTATION

- 6.1 Ongoing work planning is agreed with External Audit, and reviewed throughout the year to ensure that the work of Internal Audit and External Audit is co-ordinated. A copy of the audit plan has been sent to External Audit for their information. Directors were consulted during February 2014 on the possible content for the 2014 / 2015 audit plan and their views have been taken into consideration when putting the plan together.

Report Author:	Steve Crabtree
Position:	Shared Head of Internal Audit (for Peterborough UA / Cambridge City / South Cambridgeshire Councils)
Contact:	Peterborough Office: 01733 384557 Cambridge Office: 01223 458181 South Cambridgeshire Office: 01954 713452

**SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL  
INTERNAL AUDIT CHARTER**

March 2014

Next Review: By March 2015

## 1. INTRODUCTION

- 1.1 Organisations in the UK public sector have historically been governed by an array of differing internal audit standards. The Public Sector Internal Audit Standards (the PSIAS), which took effect from the 1 April 2013, and are based on the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF) now provide a consolidated approach to promoting further improvement in the professionalism, quality, consistency, transparency and effectiveness of Internal Audit across the whole of the public sector.
- 1.2 The PSIAS require that all aspects of Internal Audit operations are acknowledged within an Audit Charter that defines the purpose, authority and responsibilities of the service provision. The Charter therefore establishes the position of the service within South Cambridgeshire District Council (SCDC); its authority to access records, personnel and physical properties relevant to the performance of engagements; in addition to defining the scope of Internal Audit activities. There is also an obligation under the PSIAS for the Charter to be periodically reviewed and presented to the Corporate Governance Committee, the Section 151 Officer and senior management. This Charter will therefore be revisited annually to confirm its ongoing validity and completeness, and be circulated in accordance with the requirements specified above.

## 2. PURPOSE

- 2.1 In accordance with the PSIAS, Internal Auditing is defined as:

*"An independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."*

- 2.2 However, it should also be appreciated that the existence of Internal Audit does not diminish the responsibility of senior management to establish appropriate and adequate systems of internal control and risk management. Internal Audit is not a substitute for the functions of senior management, who should ensure that Council activities are conducted in a secure, efficient and well-ordered manner with arrangements sufficient to address the risks which might adversely impact on the delivery of corporate priorities and objectives.

## 3. AUTHORISATION

- 3.1 The requirement for an Internal Audit Service is outlined within the Accounts and Audit Regulations 2003, as amended in 2006 and 2011, which state that *"a relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control"*. This statutory requirement for continuous Internal Audit has been formally recognised and endorsed within SCDC's Constitution.
- 3.2 Further, there are other requirements place upon the Chief Audit Executive (see Section 4: Organisation and Relationships), to fulfil all aspects of CIPFA's Statement on the Role of the Head of Internal Audit in Public Sector Organisations, whilst the Council's Constitution makes Internal Audit primarily responsible for carrying out an

examination of the accounting, financial and other operations of the Council, under the independent control and direction of the Section 151 Officer. The role of Section 151 Officer at SCDC is fulfilled by the Executive Director (Corporate Services).

3.3 The internal audit activity, with strict accountability for confidentiality and safeguarding records and information, is authorised to have full, free, and unrestricted access to any and all of the organisation's:

- Records, documents and correspondence (manual and electronic) relating to any financial and other transactions;
- Physical properties, i.e. premises and land, plus cash, stores or any other Council property; and
- Personnel – requiring and receiving such explanations as are necessary concerning any matter under examination and generally assisting the Internal Audit activity in fulfilling its roles and responsibilities.

3.4 Such access shall be granted on demand and shall not be subject to prior notice, although in principle, the provision of prior notice will be given wherever possible and appropriate, unless circumstances dictate otherwise.

#### 4. ORGANISATION AND RELATIONSHIPS

4.1 Within the PSIAS, the terms 'Chief Audit Executive,' 'Board' and 'Senior Management' are used to describe key elements of the organisation's governance, and the ways in which they interact with Internal Audit. The PSIAS require that the terms are defined in the context of the governance arrangements in each public sector organisation, in order to safeguard the independence and objectivity of Internal Audit. At SCDC, the following interpretations are applied, so as to ensure the continuation of the current relationships between Internal Audit and other key bodies at the Council. The following terms are explained:

- Chief Audit Executive
- Board
- Senior Management
- External Audit
- Other Internal Audit Service Providers
- Other External Review and Inspection Bodies

#### 4.2 Chief Audit Executive

At SCDC, the Chief Audit Executive is the Head of Internal Audit (HoIA), who fulfils this role to Peterborough City Council (PCC) and Cambridge City Council (CCC) as part of a shared service arrangement. A Memorandum of Understanding exists between all three and this agreement is subject to annual review. Each authority, as at March 2014, has its own internal staff providing the service. The HoIA has a direct line of reporting to the Section 151 Officer at each Council and in response to requirements laid down within the PSIAS, it is further confirmed that the HoIA has a direct reporting line and free and unfettered access to the Chief Executive should it be required.

#### 4.3 Board

4.3.1 In the context of overseeing the work of Internal Audit, the 'Board' will be the Corporate Governance Committee of the Council, which has been established as part of the corporate governance arrangements at the Council. The Committee is responsible for the following with reference to Internal Audit:

- Internal Audit Plans;
- Quarterly progress and performance against approved plans;
- Annual Audit Opinion; and
- Compliance with standards.

4.3.2 Internal Audit will work closely with the committee to facilitate and support its activities. Moreover, the HoIA also has a direct reporting line, and free and unfettered access to the Chair of the Corporate Governance Committee should it be needed.

#### 4.4 Senior Management

In the context of ensuring effective liaison between Internal Audit and senior officers, Internal Audit has regular access to Directors and Heads of Service. 'Senior Management' for the purposes of this Charter are the Executive Management Team of which the Section 151 Officer is a key member.

#### 4.5 External Audit

Internal Audit interact with the Council's External Auditors – Ernst and Young – in order to minimise any potential duplication of work and determine the assurance that can be placed on the respective work of the two parties. An Audit Joint Working Protocol will be developed, which recognises the respective responsibilities of each body, relevant audit areas that will be covered, liaison and information sharing arrangements between the two bodies, audit testing and sample size requirements to be observed by the two bodies and generic key financial controls requiring examination each year. This will replace the previous protocol with the Audit Commission.

#### 4.6 Other Internal Audit Service Providers

Internal Audit will also liaise with other Council's Internal Audit Service providers, where shared service arrangements exist. In such cases, a dialogue will be opened with the other Council's equivalent Chief Audit Executive to agree a way forward regarding the future auditing of 'shared' services, which will be both efficient and cost effective for all parties involved, and cause least disruption to the area(s) being audited.

#### 4.7 Other External Review and Inspection Bodies

The Internal Audit Section confirms it will likewise co-operate with all external review and inspection bodies that are authorised to assess and evaluate the activities of the Council, to determine compliance with regulations, standards or targets. Internal Audit will, wherever possible, utilise third party assurances arising from this work.

## 5. OBJECTIVES AND SCOPE

- 5.1 The provision of assurance services is the primary role of Internal Audit and there is a duty of care on the Chief Audit Executive to give an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control. This responsibility to evaluate the governance framework far exceeds examination of controls applying to the Council's core financial systems. Instead, Internal Audit is required to scrutinise the whole system of risk management, internal control and governance processes established by management.
- 5.2 Internal Audit also has a secondary role, whereby it will provide consultancy services which are advisory in nature and generally performed at the request of the Council to facilitate improved governance, risk management and control, and potentially contribute to the annual audit opinion.
- 5.3 A risk based Audit Plan will be developed each year to determine an appropriate level of audit coverage to generate an annual audit opinion, which can then be used to assist with the formulation of the SCDC's Annual Governance Statement. Moreover, audit work performed will seek to enhance the Council's overall internal control environment. In the event of deficiencies in arrangements being identified during audit assignments, Internal Audit will put forward recommendations aimed at improving existing arrangements and restoring systems of internal control to a satisfactory level, where relevant.
- 5.4 In accordance with the PSIAS, the Internal Audit Service will evaluate and contribute to the improvement of:
- The design, implementation and effectiveness of the organisation's ethics related objectives, programmes and activities.
  - The effectiveness of the Council's processes for performance management and accountability.
  - The Council's IT governance provisions in supporting the organisation's corporate priorities, objectives and strategies.
  - The Council's risk management processes in terms of significant risks being identified and assessed; appropriate risk responses being made that align with the organisation's risk appetite, the capturing and communicating of risk information in a timely manner, and its use by staff, senior management and members to carry out their responsibilities and inform decision making generally.
  - The provisions developed to support achievement of the organisation's strategic objectives and goals.
  - The systems formulated to secure an effective internal control environment.
  - The completeness, reliability, integrity and timeliness of management and financial information.
  - The systems established to ensure compliance with legislation, regulations, policies, plans, procedures and contracts, encompassing those set by the Council and those determined externally.
  - The systems designed to safeguard Council assets and employees.
  - The economy, efficiency and effectiveness with which resources are used in operations and programmes at the Council.
- 5.5 In addition to the areas recorded above, where Internal Audit will give input to their continuing enhancement; the Service will also provide support to the Executive Director in the discharge of his duties as the Section 151 Officer with responsibility for

the probity and effectiveness of the Authority's financial arrangements and internal control systems.

- 5.6 **Managing the risk of fraud and corruption is the responsibility of management.** However, as part of the scope of Internal Audit, it will be alert in all its work to the risks and exposures that could allow fraud or corruption to occur and will monitor the extent and adequacy of risk controls built into systems by management, sharing this information with External Audit and other corporate investigators e.g. Benefit Fraud.
- 5.7 In the course of delivering services encompassing all the elements stated above, should any significant risk exposures and control issues subsequently be identified, Internal Audit will report these matters to senior management, propose action to resolve or mitigate these, and appraise the Corporate Governance Committee of such situations.

## 6. **INDEPENDENCE**

- 6.1 The Internal Audit Section operates within an organisational framework that preserves the independence and objectivity of the assurance function, and ensures that Internal Audit activity is free from interference in determining the scope of internal auditing, performing work and communicating results. The framework allows the HoIA direct access to and the freedom to report unedited, as deemed appropriate, to the Corporate Governance Committee, the Chief Executive, Section 151 Officer and the Executive Management Team.
- 6.2 The remaining Internal Auditors have no operational responsibilities or authority over any of the activities that they are required to review. As a consequence, they do not develop procedures, install systems, prepare records, or engage in any other activity, which would impair their judgement. In addition, Internal Auditors will not assess specific operations for which they were previously responsible, and objectivity is presumed to be impaired if an Internal Auditor provides assurance services for an activity for which they had responsibility within the previous 12 months. Internal Auditors may however provide consulting services relating to operations over which they had previous responsibility. The HoIA will confirm to the Corporate Governance Committee, at least annually, the organisational independence of the Internal Audit activity.

## 7. **PROFESSIONAL STANDARDS**

- 7.1 SCDC's Internal Auditors operate in accordance with the PSIAS, 2013. The Internal Auditors are also governed by the policies, procedures, rules and regulations established by SCDC. These include, but are not limited to Financial Regulations and Contract Standing Orders, the Anti-Fraud and Corruption Policy and the Code of Conduct. Similarly, the Council's Internal Auditors will be aware of external bodies' requirements (e.g. as identified by CIPFA) and all legislation affecting the Council's activities.
- 7.2 The Council's Internal Auditors will additionally adhere to the Code of Ethics as contained within the PSIAS. Internal Auditors will also demonstrate due professional care in the course of their work and consider the use of technology-based audit and other data analysis techniques, wherever feasible and considered beneficial to the Council. All working arrangements and methodologies, which will be followed by SCDC's Internal Auditors are set out in the Audit Manual.



8. **AUDIT RESOURCES**

- 8.1 The HoIA will be professionally qualified (CMIIA, CCAB or equivalent) and have wide internal audit management experience, to enable them to deliver the responsibilities of the role.
- 8.2 The HoIA will ensure that the Internal Audit Service has access to staff that have an appropriate range of knowledge, skills, qualifications and experience to deliver requisite audit assignments. The type of reviews that will be provided in year include systems reviews, consultancy input to new / modified systems, and special investigations. In the event of special investigations being required, there is limited contingency in the Audit Plans to absorb this work. However, additional resources may need to be made available to the Internal Audit Service when such input is necessary.

9. **AUDIT PLANNING**

- 9.1 The HoIA will develop an annual audit strategy, together with annual audit plans and a summary of annual audit coverage using a risk based methodology. This will take into account documented corporate and operational risks, as well as any risks or concerns subsequently notified to Internal Audit by senior management. This will be submitted to Executive Management Team for their approval prior to being taken forward to the Corporate Governance Committee for final endorsement, in advance of the new financial year to which they relate.
- 9.2 Any difference between the plan and the resources available will be identified and reported to the Corporate Governance Committee. It will outline the assignments to be carried out and the broad resources and skills required to deliver the plan. It will provide sufficient information for the Council to understand the areas to be covered and for it to be satisfied that sufficient resources and skills are available to deliver the plan. Areas included in the audit plan are highlighted in **Table 1**.

<b>TABLE 1: AUDIT ACTIVITIES</b>
<ul style="list-style-type: none"> <li>• Core system assurance work</li> <li>• Governance, Risk Management and Assurance Framework</li> <li>• Corporate / Cross Cutting audits</li> <li>• Departmental specific reviews</li> <li>• Fraud and irregularities</li> <li>• Follow up activity</li> </ul>

- 9.3 The audit plan will be kept under review to identify any amendment needed to reflect changing priorities and emerging risks. It will be flexible, containing an element of contingency to accommodate assignments which could not have been readily foreseen. However, on occasions, specific audit requests take precedence over the original audit plan and will be required as additional work rather than as a replacement. Resources, such as specialist or additional auditors may be required to supplement this. Internal Audit will reserve the right to make a charge for any additional work that is over and above that originally planned.
- 9.4 Annual audit plans will be discussed with the Executive Management Team prior to their formal approval.

## 10. REPORTING

10.1 The process followed for completing each audit is set out in **Table 2**.

10.2 Upon completion of each audit assignment, an Internal Audit report will be prepared that:

- Provides an opinion on the risks and controls of the area reviewed, and this will contribute to the annual opinion on the internal control environment, which, in turn, informs the Annual Governance Statement; and
- Provides a formal record of points arising from the audit and management responses to issues raised, to include agreed actions with implementation timescales.

10.3 Exit meetings are accommodated enabling management to discuss issued Draft Audit Reports. Accountability for responses to Internal Audit recommendations lies with the Chief Executive, Directors, and / or Heads of Service, as appropriate, who can either, accept and implement guidance given or formally reject it. However, if audit proposals to strengthen the internal control environment are disregarded and there are no compensating controls justifying this course of action, an audit comment will be made in the Final Audit Report, reiterating the nature of the risk that remains and recognising that management has chosen to accept this risk. Furthermore, depending on the severity of the risk, the matter may be escalated upwards and drawn to the attention of the Corporate Governance Committee.

<b>Stage</b>	<b>Commentary</b>
Audit Brief	Set up and agreed with manager(s)
Fieldwork	Assignment undertaking including interviews, testing etc.
Exit Meeting	At conclusion of fieldwork, issues raised for reporting (if not already provided during course of fieldwork).
Draft report	Produced within 15 working days of completion of fieldwork / exit meeting.  Head of Service / Line Manager to formally respond within 15 days, including acceptance (or not) of actions together with timescale proposals to implement.
Final Report	Internal Audit incorporates all management comments within the report and re-issue as a final within 10 days of receiving the response.  The report will be distributed in accordance with agreed protocols (see Table 4).

10.4 Actions are rated and an overall opinion given on the service area reviewed (see **Table 3**). Final Audit Reports will be issued in line with agreed working protocols to the relevant nominated officers and subject to follow up work as necessary.

<b>TABLE 3: AUDIT ASSURANCE</b>	
<b>Definitions</b>	<b>Assurance Rating</b>
The system is designed to meet objectives / controls are consistently applied that protect the Authority from foreseeable risks.	FULL
The system is generally sound but there are some weaknesses of the design of control and / or the inconsistent application of controls. Opportunities exist to mitigate further against potential risks.	SIGNIFICANT
There are weaknesses in the design of controls and / or consistency of application, which can put the system objectives at risk. Therefore, there is a need to introduce additional controls and improve compliance with existing ones to reduce the risk exposure for the Authority.	LIMITED
Controls are weak and / or there is consistent non-compliance, which can result in the failure of the system. Failure to improve controls will expose the Authority to significant risk, which could lead to major financial loss, embarrassment or failure to achieve key service objectives.	NO

10.5 Following the end of the year, an annual report will be produced setting out Internal Audits opinion on the state of the internal controls and governance across the Council. This will comment upon:

- The scope including the time period to which the opinions pertains;
- Any scope limitations;
- Consideration of all related projects including the reliance on other assurance providers;
- The risk or control framework or other criteria used as a basis for the overall opinion;
- The overall opinion, providing reasons where an unfavourable overall opinion is given; and
- A statement on conformance with the PSIAS and the results of the quality assurance and improvement programme.

10.6 All reports produced are set out in **Table 4**.

<b>TABLE 4: PLANNING AND REPORTING FREQUENCY</b>			
<b>Report Produced</b>	<b>For</b>	<b>Reason</b>	<b>Content</b>
Audit Report	Relevant Director Head of Service External Audit S.151 Officer	The end of each audit assignment as the main recipient and those charged with implementing the issues identified	Executive Summary Audit Opinion Detailed risk issues Agreed improvement plan
Progress Reports (based around the committee cycle)	Corporate Governance Committee	To provide the Council with progress at delivering the audit service and any key governance issues arising.	Progress against annual plan Any amendments to current annual plan Details of significant risk issues Details of non-responses or non-implementation of actions
Annual Opinion and Performance Report	Corporate Governance Committee External Audit	The end of each year in accordance with PSIAS. An evaluation of the works undertaken and the level of assurance established.	Annual assurance report giving HoIA's opinion on the control environment Achievement of the annual plan and performance data. Effectiveness of Internal Audit Compliance with PSIAS and any associated quality improvement plan
Annual Audit Plan	Corporate Governance Committee S.151 Officer External Audit	Beginning of year. Details of the service delivered and the future plans to provide assurance across the Council in accordance with PSIAS.	Audit Plan and days to be delivered Audit Charter Code of Ethics Performance indicators to monitor service delivery and quality

## 11 QUALITY ASSURANCE AND IMPROVEMENT

11.1 The PSIAS require that the Internal Audit develops and maintains a quality assurance and improvement programme that covers all aspects of the Internal Audit activity, and includes both internal and external assessments. In the event of an improvement plan proving necessary to formulate and implement, in order to further develop existing service provisions, the HoIA will initiate the appropriate action and annually, the results of the quality and assurance programme together with progress made against the improvement plan will be reported to senior management and the Corporate Governance Committee.

## 11.2 Internal Assessments

- 11.2.1 Internal Assessments must include on-going monitoring of the performance of the internal audit activity. The Service operates in accordance with a number of key performance indicators. Performance is subject to regular review by Audit.
- 11.2.2 Internal arrangements also include post audit feedback from auditees and should criticism be received, this will immediately be investigated and steps taken to resolve matters raised.
- 11.2.3 The PSIAS additionally require periodic self-assessments or assessments by other persons within the organisation with sufficient knowledge of Internal Audit practices. This obligation is satisfied by the HoIA performing an annual self-assessment of the effectiveness of Internal Audit, before the results are submitted to the Corporate Governance Committee. Presenting this information to the Corporate Governance Committee enables members to be assured that the Internal Audit Service is operating in a satisfactory manner such that reliance can be placed on the subsequent annual audit opinion provided by the HoIA.

## 11.3 External Assessments

- 11.3.1 External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. External assessments can be in the form of a full external assessment, or a self-assessment with independent external verification.
- 11.3.2 The HoIA will agree with the Corporate Governance Committee and the Section 151 Officer the form of the external assessments; and, the qualifications and independence of the external assessor or assessment team, including any potential conflict of interest. As part of the shared service arrangements, it would be prudent for each authority to be reviewed at the same time in order to reduce the level of duplication. Consensus for this approach suggests it would be appropriate to undertake in 2015 / 2016.

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# SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL

## INTERNAL AUDIT: CODE OF ETHICS

### INTRODUCTION

The purpose of a Code of Ethics is to promote an appropriate ethical culture for Internal Audit. The Code sets out the minimum standards for the performance and conduct of South Cambridgeshire District Council's (SCDC) Internal Auditors. It is intended to clarify the standards of conduct expected when carrying out their duties and promote an ethical, professional culture at all times when undertaking audit duties.

### PRINCIPLES

Internal auditors are expected to apply and uphold the following principles:

- **Integrity.** The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement.
- **Objectivity.** Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments.
- **Confidentiality.** Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.
- **Competency.** Internal auditors apply the knowledge, skills and experience needed in the performance of internal auditing services.

### INTEGRITY

SCDC Internal Auditors shall:

- Perform their work with honesty, diligence and responsibility;
- Observe the law and make disclosures expected by the law and the profession;
- Not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organisation;
- Respect and contribute to the legitimate and ethical objectives of the organisation; and
- Maintain relationships with colleagues, internal clients and external contacts that are characterised by honesty, truthfulness and fairness

## **OBJECTIVITY**

SCDC Internal auditors shall:

- Not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organisation;
- Not review any activity for which they have previously had operational responsibility;
- Not accept anything that may impair or be presumed to impair their professional judgement; and
- Disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

## **CONFIDENTIALITY**

SCDC Internal auditors shall:

- Be prudent in the use and protection of information acquired in the course of their duties but should ensure that requirements of confidentiality do not limit or prevent reporting within the authority as appropriate;
- Not make unauthorised disclosure of information unless there is a legal or professional requirement to do so; and
- Not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organisation.

## **COMPETENCY**

SCDC Internal auditors shall:

- Engage only in those services for which they have the necessary knowledge, skills and experience;
- Perform Internal Audit services with the International Standards for the Professional Practice of Internal Audit; and
- Continually improve their proficiency, effectiveness and quality of their services

## **MANAGING ARRANGEMENTS**

To ensure compliance with the Code of Ethics:

- There is an annual review of the Code to reinforce understanding and confirm on-going commitment;
- Quality control processes are in place to demonstrate integrity in all aspects of the work;
- All staff are obliged to declare any potential conflicts of interest, as a minimum every 6 months;
- Confidentiality breaches will not be tolerated; and

All staff are aware and understand the organisations aims and objectives together with an appreciation of the policies and procedures which govern the areas to be audited.



**SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL  
STRATEGIC AUDIT PLAN 2014/15 – 2016/17**

**1. INTRODUCTION**

- 1.1 This document is intended to demonstrate how Internal Audit will support the overall aims and objectives of the Council. It will be reviewed throughout the year to ensure its continued relevance, both in terms of supporting the council's aims and in achieving a professional, modern audit service.
- 1.2 The Accounts and Audit Regulations 2011 stipulate that a council should maintain "*a sound system of internal control which facilitates the effective exercise of that body's functions and which includes arrangements for the management of risk*". The regulations also provide that council's "*undertake an adequate and effective internal audit of its accounting records and of its system of internal control*" in accordance with the Public Sector Internal Audit Standards. The Council's Internal Audit team are bound by the mandatory requirements of these standards.
- 1.3 Internal audit is defined as an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes
- 1.4 The provision of assurance is the key role for Internal Audit. This role requires the Head of Internal Audit (HoIA) to provide an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control. This audit opinion is provided to the Corporate Governance Committee and also feeds into the Annual Governance Statement.
- 1.5 The role of Internal Audit, therefore, is to understand the key risks to the Council's objectives and to evaluate the adequacy and effectiveness of management's response to those risks. An overview of risk management and governance processes and key financial controls is also a significant aspect of our work.
- 1.6 Consulting services are advisory in nature and are generally performed at the specific request of management, with the aim of improving operations. Requests of this nature are considered in light of resource availability and our primary role of assurance.

**2. STRATEGY**

- 2.1 With a shared service, there is a potential for a dilution of resources, in this arrangement at a senior level. Every effort is made to look at minimising this.
- 2.2 In order for the service to deliver and enhance its provision, the following actions are proposed going forward:
- **Use of IT software.** We will look to roll out appropriate audit software to improve the way we manage and deliver our service. This will include, but not be restricted to VISION and IDEA software. VISION is an automated web-based package which will enable all audits to be completed on-line. With all the records held on-line, quality reviews should be able to be completed by managers on an on-going basis rather than waiting for audit completion. Early errors and concerns can be addressed. With

all data held on the system, this will free up office storage space as well as allowing auditors to access from other sites. Finally audit reports will be able to be generated from the system, potentially speeding up the final outputs. It is noted that there will be a lead in time for this to be effective i.e. data migration, templates created etc. a separate audit package, IDEA, will also be obtained. This interrogation package will enable audit to evaluate large data sets for potential anomalies on an ongoing basis which will provide greater assurance on the data quality and records of the Council. A separate “mini” audit plan will be produced to cover this.

- **Shared resources and knowledge.** We will continue to share best practice between the partnership and others. A number of auditable areas cross over authority boundaries and we will look to obtain assurance from others – avoiding duplication of effort.
- **Development of skills.** With a larger “critical mass” of auditors there is the potential for switching resources between the partnership on an ad-hoc basis where specialisms exist. Audit plans across each authority have been established following similar principles and a number of common themes identified. We will look into the potential for these to be completed by the same auditor – issues around Terms of Conditions, travel allowances etc., will need to be explored. Subject to resolution, as well as developing the skills of the auditor this could enable improved services and benchmarking across the organisations.
- **Service expansion.** We will continue to look for other partners to enhance the provision of audit. However, we are mindful that any changes will need to be carefully project managed so as not to dilute coverage at South Cambridgeshire (or its existing partners). Furthermore, this will also necessitate a re-structure of the whole service.

### 3. AUDIT PLAN

3.1 The comprehensive risk-based planning process is set out in the Audit Charter. The following sources of information have been used in identifying the priorities put forward for audit coverage:

- Council objectives;
- Financial Strategy;
- The Council’s strategic and operational risk registers;
- Consultations with individual directors and their management teams.

3.2 An initial Strategic Plan has been formulated to reflect the next three years and is mapped against corporate objectives. The first year, 2014 / 2015, aims to give the Council the best audit coverage within the resources currently available. Though it is compiled and presented as a plan of work, it must be recognised that it can only be a statement of intent. Whilst every effort will be made to deliver the plan, Internal Audit recognises that it needs to be flexible. Actual audit work therefore may be modified during the year according to the circumstances prevailing at the time.

3.3 Internal Audit are fully committed to delivering a high quality and responsive Internal Audit service to the Council. With this in mind, they will be seeking throughout the year to continue to develop the service in accordance with recognised best practice.

#### 3.4 Resource Requirements

3.4.1 Resource requirements are reviewed each year as part of the audit planning process and are discussed with the Executive Director (Corporate Services) as the Section 151 Officer.

The current plans are based upon 1.20 FTE, i.e. a Senior Auditor full time and the Shared Head of Internal Audit at 0.20 FTE. Availability is based on the assumption that the current internal audit structure will remain essentially unaltered and intact throughout the year

3.4.2 The resource availability summarised in **Table 1** sets out the requirement of 240 chargeable days, including contingency.

<b>Table 1: AVAILABLE RESOURCES</b>				
	<b>Days</b>			<b>%age</b>
Maximum Available Resources	261	52	313	100.00
<b>Less: Non Chargeable Elements</b>				
Leave / Bank Holidays / Sickness	-40	-9	-49	
Training	-10	-2	-12	
Staffing Related (1:1 / Appraisals / Admin)	-8	-4	-12	
<b>TOTAL RESOURCES ALLOCATED</b>	<b>203</b>	<b>37</b>	<b>240</b>	

3.4.3 *Non-Chargeable Time.* Included under this general heading is the days allocated to the provision of annual leave and sick leave and days allocated to undertake essential internal administrative support tasks which will facilitate the operations of the Team.

### 3.5 Allocations

3.5.1 We have attempted to map the audit activities across a series of broad areas, these being:

- **CORE SYSTEMS.** Core systems are those that are fundamental to providing control assurance for internal financial control and allow the s.151 officer to make his statement included in the authority's Annual Statement of Accounts. The External Auditor also places reliance on the work undertaken by Internal Audit on core systems. These therefore feature in the plan every year.
- **ANNUAL GOVERNANCE AND ASSURANCE FRAMEWORK.** Each year the Council is obliged to issue a statement on the effectiveness of its governance arrangements. This section details audit work that specifically relates to the production of the Annual Governance Statement
- **CORPORATE CROSS CUTTING AUDITS.** Internal Audit provides support to Council and Directorate objectives by testing the effectiveness of controls designed to mitigate identified risks.
- **DEPARTMENTAL.** We will look to provide support and assurance of a number of the key activities across each directorate.

3.5.2 The overall allocation of time from the estimated 240 days available is as follows:

<b>Table 2: INTERNAL AUDIT</b>		
	<b>Days</b>	<b>%</b>
Core Systems Assurance Work	65	27.1
Annual Governance and Assurance Framework	35	14.5
Corporate Cross Cutting Audits	40	16.7
Department Specific	60	25.0
Other Resource Provisions	40	16.7
<b>TOTAL RESOURCES ALLOCATED</b>	<b>240</b>	<b>100.00</b>

#### 4 **SHARED SERVICES**

- 4.1 The internal audit service has an agreement with Cambridge and Peterborough to share resources, which came into effect from July 2013. This has solely been in relation to the provision of the lead for the service. As more organisations link in, there is a serious risk that this single dependency can become over-stretched and may be unable to react to unforeseen or unplanned events, such as investigations. Likewise unforeseen work which is taken on may impact on the planned audit work if over and above the contingency allocation. A review of the Memorandum of Understanding is required so that it can be expanded upon – one, to look to expand the potential resources shared, and two, to act as a mechanism to allow career and professional development.

## STRATEGIC PLAN 2014/15 – 2016/17

The Strategic Audit Plan has been mapped against Corporate Plan in order to provide assurance that each objective is being reviewed through internal audit activities.

VISION	AIM	OBJECTIVE
<b>ENGAGEMENT</b>	Engage with residents, parishes and businesses to ensure we deliver first class services and value for money	<ol style="list-style-type: none"> <li>1. Develop the property company pilot scheme into a full business plan to deliver affordable housing and generate income.</li> <li>2. Improve efficiency and value for money within a viable financial strategy.</li> <li>3. Make the district an even more attractive place to do business.</li> <li>4. Work with tenants, parish councils and community groups to sustain successful, vibrant villages.</li> </ol>
<b>PARTNERSHIPS</b>	Work with partners to create opportunities for employment, enterprise, education and world leading innovation	<ol style="list-style-type: none"> <li>5. Build new council houses to provide affordable homes to meet the needs of local communities.</li> <li>6. Ensure best use of Council assets and benefit from opportunities to achieve efficiencies from partnership working.</li> <li>7. Move to a commercial approach to service delivery.</li> <li>8. Work with RECAP waste partners to reduce costs, carbon impact and waste sent to landfill.</li> </ol>
<b>WELL BEING</b>	Ensure that South Cambridgeshire continues to offer an outstanding quality of life for our residents	<ol style="list-style-type: none"> <li>9. Work with GPs and partners to link health services and to improve the health of our communities.</li> <li>10. Ensure the impacts of welfare reform are managed smoothly and effectively.</li> <li>11. Establish successful and sustainable New Communities with housing and employment at Northstowe and the major growth sites, served by an improved A14.</li> <li>12. Increase the range and supply of temporary accommodation to help minimise the use of bed and breakfast accommodation for homeless households.</li> </ol>

SERVICE / SYSTEM	OBJ.	REASON	ALLOCATION		
			2014/15	2015/16	2016/17

<b>CORE SYSTEM ASSURANCE WORK</b>
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*A new protocol will be set up with our External Auditors, Ernst & Young to agree key controls for each review. Following 1<sup>st</sup> year of the new audit arrangements, time allocations for each job will be assessed / benchmarking against current working arrangements.*

Housing Benefit	2, 10	Core assurance audit / corporate responsibility to protect finite resources	✓	✓	✓
Council Tax	2		✓	✓	✓
NNDR	2		✓	✓	✓
Main Accounting	2		✓	✓	✓
Cash / Bank / Treasury Mgmt.	2		✓	✓	✓
Accounts Payable / Creditors	2		✓	✓	✓
Payroll	2, 6		NB: There is a shared service established with Cambridge City Council for the provision of payroll services wef April 2014. This is a HIGH priority / risk and is on their audit plan for 2014/15. Assurance, or otherwise, will be provided to SCDC.		
Accounts Receivable / Debtors	2		✓	✓	✓
Capital Accounting	2		✓	✓	✓
Housing Rents	2		✓	✓	✓
BACS Payments	2		✓	✓	✓
VAT	2		✓	✓	✓
Reconciliations	2		This audit has been split out and incorporated into the individual audits identified above		

SERVICE / SYSTEM	OBJ.	REASON	ALLOCATION		
			2014/15	2015/16	2016/17

<b>GOVERNANCE AND ASSURANCE FRAMEWORK</b>
---

Annual Governance Statement	ALL	Compliance with Accounts and Audit Regulations	✓	✓	✓
Annual Audit Opinion	ALL	Compliance with mandatory audit standards	✓	✓	✓
Internal Audit Effectiveness	2		✓	✓	✓
Corporate Governance Committee Effectiveness	ALL		✓	✓	✓
National Fraud Initiative	ALL	Corporate responsibility to protect finite resources	✓	✓	✓
Risk Management	ALL	Core audit assurance		✓	
Partnership Governance	ALL	Corporate responsibility to protect finite resources	✓		✓
Project Management (including VfM)	ALL	Ensure finite resources are appropriately managed		✓	
Performance Management	2		✓		✓

SERVICE / SYSTEM	OBJECTIVE	ALLOCATION		
		2014/15	2015/16	2016/17

<b>CORPORATE CROSS CUTTING AUDITS</b>				
Internal Audit provides support to Council and Directorate objectives by testing the effectiveness of controls designed to mitigate identified risks.				
Service Preparations for Growth	3, 5, 11		✓	
Localism Act	4	Currently seen as a low risk		
Human Resources / Staffing	ALL	✓		✓
Health & Safety	6	NB: There is provided in partnership with Cambridge City Council. Assurance, or otherwise, will be provided to SCDC and is scheduled within their audit plan for 2014/2015.		
Business Continuity	6	NB: There is provided in partnership with Cambridge City Council. Assurance, or otherwise, will be provided to SCDC and is scheduled within their audit plan for 2014/2015.		
Asset Management	6			✓
S.106 Developer Contributions / Community Infrastructure Levy	3, 5, 6, 11	✓		✓
External Funding / Grants	3	Currently seen as a low risk		
Reorganisations /Service Delivery Vehicles	2, 6, 7		✓	
Community Chest Grants	4	✓		
Business Efficiency Agenda	2, 6, 7	✓		

<b>DEPARTMENT SPECIFIC: AFFORDABLE HOMES</b>				
Allocations / Voids	6		✓	
Homelessness	10, 12			✓
Responsive Repairs	6	✓		
Gypsy & Traveller				✓
Welfare Benefit Reforms	10		✓	
HRA Self Financing	5		✓	
Tenant Participation	4			✓
New Build Strategy	5	✓		
Housing Company	1, 7	✓		
Supported Housing / Sheltered Housing	4, 7, 9	✓		
Home Improvement Agency	6	Review of combined arrangements with HUNTS and CAM. CAM completed review in 2013 Cambridge to provide assurance going forward.		



SERVICE / SYSTEM	OBJECTIVE	ALLOCATION		
		2014/15	2015/16	2016/17

DEPARTMENT SPECIFIC: CORPORATE SERVICES				
Insurance	6		✓	
Customer Contact Centre	6			✓
Budget Management	ALL			✓
ICT Plan / Data Security / Information Governance	2	✓	✓	✓
Legal Services	2			✓
Members	2		✓	

DEPARTMENT SPECIFIC: HEALTH AND ENVIRONMENTAL SERVICES				
RECAP	6, 7, 8		✓	
Environmental Health	6, 7			✓
CO2	6, 8		✓	
Licensing	6, 7			✓
Depot related	6, 7	✓		
Sports development	6, 7	Low risk area. Not reflected in audit plan.		

DEPARTMENT SPECIFIC: PLANNING AND NEW COMMUNITIES				
Planning: The service has gone through, or is about to embark on, a number of changes – ranging from reorganisation, establishment of improvement plan to exploring the possibility of a shared service. Each area will require a different focus. These have been phased over the life of the Strategic Plan.				
Development Control	3	✓		
Urban Design and Conservation	3, 4		✓	
Building Control and Regulation	3, 6			✓

OTHER RESOURCE PROVISIONS				
Corporate responsibility to protect finite resources				
Fraud / Irregularity Contingency	ALL	✓	✓	✓
Carry Forward Activities	–	✓	✓	✓
Follow Up Provision	–	✓	✓	✓

**INTERNAL AUDIT PLAN 2014 / 2015**

SERVICE / SYSTEM	DAYS	SCOPE OF THE REVIEW
<b>CORE SYSTEM ASSURANCE WORK</b>		
Housing Benefit	7	System testing
Council Tax	5	System testing
NNDR	5	System testing
Main Accounting	5	System testing
Cash / Bank / Treasury Mgmt.	5	System testing
Accounts Payable / Creditors	8	System testing
Payroll	–	<i>NB: Shared service established with CAM wef 4/2014. HIGH priority/risk and is on CAM audit plan for 2014/15. Assurance, or otherwise, will be provided to SCDC</i>
Accounts Receivable / Debtors	8	Systems testing
Capital Accounting	5	Systems testing
Housing Rents	7	Systems testing
BACS Payments	5	Systems testing
VAT	5	Systems testing
Reconciliations	–	Allocated across other audits
<b>TOTAL</b>	<b>65</b>	

SERVICE / SYSTEM	DAYS	SCOPE OF THE REVIEW
<b>GOVERNANCE AND ASSURANCE FRAMEWORK</b>		
Annual Governance Statement	2	Verification of progress on delivery of actions to address significant governance issues identified in AGS.
Annual Audit Opinion	5	Annual report to Corporate Governance Committee. HoIA opinion on the state of governance and the internal control framework in place within South Cambridgeshire.
Internal Audit Effectiveness	4	Review of the internal audit service against best practice guidelines. <i>Requirement as per Public Sector Internal Audit Standards 2013. It would be appropriate for this to be standardised across the three authorities.</i>
Corporate Governance Committee Effectiveness	3	As part of the corporate governance arrangements, there is a need for a review of the effectiveness of the Corporate Governance Committee.  <i>Requirement per PSIAS. New CIPFA publication "Audit Committees: Practical Guidance for LA's and Police 2013" defines best practice. Potential to develop county-wide training to provide / increase level of assurance.</i>
National Fraud Initiative	5	Coordination of works for datasets for submission. Review investigation of matches from NFI.
Partnership Governance	8	Establishment of all the key partnerships which SCDC engages with; review of the levels of governance in place and an assessment of the residual risks for service delivery.
Performance Management	8	What do we do if something goes wrong...? Will include a review of the suitability of, and verification of performance indicators. Also the use of CorVu.
<b>TOTAL</b>	<b>35</b>	

SERVICE / SYSTEM	DAYS	SCOPE OF THE REVIEW
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<b>CORPORATE CROSS CUTTING AUDITS</b>		
Internal Audit provides support to Council and Directorate objectives by testing the effectiveness of controls designed to mitigate identified risks.		
Human Resources / Staffing	10	Overview of compliance by Managers etc. with HR Policies / Practices e.g. sickness absence management.
Health & Safety	-	There is provided in partnership with Cambridge City Council. Assurance, or otherwise, will be provided to SCDC and is scheduled within their audit plan for 2014/2015. Cambridge to complete review(s)
Business Continuity	-	There is provided in partnership with Cambridge City Council. Assurance, or otherwise, will be provided to SCDC and is scheduled within their audit plan for 2014/2015. Cambridge to complete review(s)
S.106 Developer Contributions / Community Infrastructure Levy	10	Fundamental areas need to ensure that: <ul style="list-style-type: none"> <li>Collection levels in accordance with agreements</li> <li>Managing expectations (if fund shortfalls)</li> <li>There are no repayments due to failure to utilise within the timetable.</li> </ul>
Community Chest Grants	10	<i>Corporate Governance Committee request</i>
Business Efficiency Agenda	10	Various projects have been commissioned to improve the delivery of services. Look into appropriate controls being put in place and that efficiency savings and outcomes are realised.  Review Projects covering Deliverables; Stakeholder Engagement; Business case evaluation; Conflicting operational priorities; Bureaucracy busting; Assessment of outcomes and Post project reviews e.g. savings materialised
<b>TOTAL</b>	<b>40</b>	

SERVICE / SYSTEM	DAYS	SCOPE OF THE REVIEW
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<b>DEPARTMENT SPECIFIC: AFFORDABLE HOMES</b>		
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Responsive Repairs	8	Review the performance of the existing contract which has been in place for 3 years. Evaluate the options for extension or re-let
New Build Strategy	8	Evaluate the investment portfolio and the cash flow profile modelling
Housing Company	8	Pilot scheme. Evaluation of the governance arrangements for the delivery of the service model

<b>DEPARTMENT SPECIFIC: CORPORATE SERVICES</b>		
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ICT Plan / Data Security / Information Governance	16	Our audit work will revolve around the key risks identified each year within the IT Plan.
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<b>DEPARTMENT SPECIFIC: HEALTH AND ENVIRONMENTAL SERVICES</b>		
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Depot	10	Coverage to be determined as the service looks to develop its partnership arrangements
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<b>DEPARTMENT SPECIFIC: PLANNING AND NEW COMMUNITIES</b>		
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Development Control	10	Following prior scrutiny of the service by the Planning Improvement Board, onus of the review will look at the data held within the service and its quality
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<b>TOTAL</b>	<b>60</b>	
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<b>OTHER RESOURCE PROVISIONS</b>		
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Fraud / Irregularity Contingency	20	Incorporation of time within the plan for undertaking proactive counter fraud-work, together with reactive work where suspected irregularities have been detected.
Carry Forward Activities	10	Completion of 2013/14 audits
Follow Up Provision	10	Review of implementation of agreed actions

<b>TOTAL</b>	<b>40</b>	
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**INTERNAL AUDIT: PERFORMANCE INDICATORS (AT MARCH 2014)**

**SERVICE RELATED**

<b>Indicator</b>	<b>Target</b>	<b>Purpose</b>
% audit actions accepted by management	100 %	Internal Audit strives to agree all actions with management.  Acceptance of audit recommendations by management ensures that where improvements are required to the internal control environment, appropriate action will be taken to secure these enhancements.  However, there can be occasions where actions are disputed. In these cases, there may be justifiable reasons for management not supporting them. Conversely, management can take the decision to accept the risks identified, particularly if insufficient resources preclude action being taken. However, this will mean that there are vulnerabilities in systems of internal control, which are not being addressed.
% actions implemented to timescale	90%	This indicator measures the effectiveness of management in making change. Management commitment in implementing actions ensures that high profile risks / fundamental flaws in systems of internal control are suitably resolved.
Days between the completion of audit fieldwork and issue of draft report	15 working days	The draft report is the first stage after which management will have written confirmation of the audit outcomes. Issue on a timely basis provides better opportunity for management to be able to comment, and also ensures that the audit plan is delivered as expected.
Days between the issue of the draft and final report	10 working days	Delivery of a timely final report ensures that management can commence the process of addressing internal control weaknesses.
Average audit questionnaire score	Tbc	An audit questionnaire will be devised to be sent out following completion of each assignment to gauge the perceptions of management into the audit service. Low scores will be followed up to establish the background and to resolve any differences.

**COMPLIANCE**

Compliance with the Public Sector Internal Audit Standards	Full	These Standards encompass the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework. A checklist has been developed from the guidance, which will be completed annually, with the results feeding into our review of the effectiveness of internal audit.
Compliance with the CIPFA Statement on the Role of the Head of Internal Audit	Full	This Statement sets out what CIPFA considers being best practice for Heads of Internal Audit in terms of providing a summary of the core responsibilities entailed in the role to support the Council in achieving its objectives, by giving assurance on its internal control arrangements and playing a key part in promoting good corporate governance. A checklist has been developed from the guidance, which is completed annually and feeds into our review of the effectiveness of internal audit.

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The Members of the Corporate Governance Committee  
South Cambridgeshire Hall  
Cambourne Business Park  
Cambourne  
Cambridgeshire  
CB23 6EA

29 January 2014

Email: MHodgson@uk.ey.com

Dear Member

## **Certification of claims and returns annual report 2012-13 South Cambridgeshire District Council**

We are pleased to report on our certification work. This report summarises the results of our work on South Cambridgeshire District Council's 2012-13 claims and returns.

### **Scope of work**

Local authorities claim large sums of public money in grants and subsidies from central government and other grant-paying bodies and are required to complete returns providing financial information to government departments. In some cases these grant-paying bodies and government departments require certification from an appropriately qualified auditor of the claims and returns submitted to them.

Under section 28 of the Audit Commission Act 1998, the Audit Commission may, at the request of authorities, make arrangements for certifying claims and returns because scheme terms and conditions include a certification requirement. When such arrangements are made, certification instructions issued by the Audit Commission to appointed auditors of the audited body set out the work they must undertake before issuing certificates and set out the submission deadlines.

Certification work is not an audit. Certification work involves executing prescribed tests which are designed to give reasonable assurance that claims and returns are fairly stated and in accordance with specified terms and conditions.

In 2012-13, the Audit Commission did not ask auditors to certify individual claims and returns below £125,000. The threshold below which auditors undertook only limited tests remained at £500,000. Above this threshold, certification work took account of the audited body's overall control environment for preparing the claim or return. The exception was the housing and council tax benefits subsidy claim where the grant paying department set the level of testing.

Where auditors agree it is necessary audited bodies can amend a claim or return. An auditor's certificate may also refer to a qualification letter where there is disagreement or uncertainty, or the audited body does not comply with scheme terms and conditions.

### **Statement of responsibilities**

In March 2013 the Audit Commission issued a revised version of the 'Statement of responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns' (statement of responsibilities). It is available from the Chief Executive of each audited body and via the Audit Commission website.

The statement of responsibilities serves as the formal terms of engagement between the Audit Commission's appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

This annual certification report is prepared in the context of the statement of responsibilities. It is addressed to those charged with governance and is prepared for the sole use of the audited body. We, as appointed auditor, take no responsibility to any third party.

### **Summary**

Section 1 of this report outlines the results of our 2012-13 certification work and highlights the significant issues.

We checked and certified three claims and returns with a total value of £101 million. We met all submission deadlines. We issued one qualification letter. Details of the qualification matters are included in section 2. Our certification work found errors which the Council corrected. The amendments had a marginal effect on the grant due.

Fees for certification work are summarised in section 2. The Audit Commission applied a general reduction of 40% to certification fees in 2012-13. We have included the actual fees for 2011-12 to assist year on year comparisons.

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee on the 21 March 2014.

Yours faithfully



Mark Hodgson  
Director  
Ernst & Young LLP

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**Certification of claims and returns annual report 2012-13**

**Contents**

- 1. Summary of 2012-13 certification work..... 1
- 2. 2012-13 certification fees ..... 3
- 3. Looking forward ..... 4

## 1. Summary of 2012-13 certification work

We certified three claims and returns in 2012-13. The main findings from our certification work are provided below.

### Housing and council tax benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£33,780,330
Limited or full review	Full
Amended	Amended
Qualification letter	Yes
Fee - 2012-13	£20,900
Fee - 2011-12	£23,258
<b>Recommendations from 2011-12:</b>	<b>Findings in 2012-13</b>
None	<p>Errors were identified on three out of the four initial samples selected. This led to significant additional testing, including two sets of full population testing.</p> <p>A qualification letter was issued summarising the issues.</p> <p>This led to an additional fee of £8,560 being levied, which is included within the £20,900 set out above.</p>

Councils run the Government's housing and council tax benefits scheme for tenants and council taxpayers. Councils responsible for the scheme claim subsidies from the Department for Work and Pensions (DWP) towards the cost of benefits paid.

The certification guidance requires auditors to complete more extensive '40+' testing (extended testing) if initial testing identifies errors in the calculation of benefit or compilation of the claim. We found errors and carried out extended testing in several areas.

Extended '40+' testing and other testing identified errors. We have reported the extrapolated value of errors to the DWP in a qualification letter. The following are the main issues included in our qualification letter was that an incorrect claim start date applied.

We also amended the claim in respect of the following issues:

- incorrect input of ineligible services; and
- LHA rate split applied incorrectly.

### National non-domestic rates return

Scope of work	Results
Value of return presented for certification	£64,089,988
Limited or full review	Full
Amended	Yes
Qualification letter	No
Fee – 2012-13	£2,675
Fee – 2011-12	£2,675
<b>Recommendations from 2011-12:</b>	<b>Findings in 2012-13</b>
None	None

The Government runs a system of non-domestic rates using a national uniform business rate. Councils responsible for the scheme collect local business rates and pay the rate income over to the Government. Councils have to complete a return setting out what they have collected under the scheme and how much they need to pay over to the Government.

We found one error on the national non-domestic rates return and following amendment we certified the amount payable to the pool without qualification.

### Pooling of housing capital receipts

Scope of work	Results
Value of return presented for certification	£2,793,643
Limited or full review	Full
Amended	Yes
Qualification letter	No
Fee – 2012-13	£1,135
Fee – 2011-12	£1,134
<b>Recommendations from 2011-12:</b>	<b>Findings in 2012-13</b>
None	None

Councils pay part of a housing capital receipt into a pool run by the Department of Communities and Local Government. Regional housing boards redistribute the receipts to those councils with the greatest housing needs. Pooling applies to all local authorities, including those that are debt-free and those with closed Housing Revenue Accounts, who typically have housing receipts in the form of mortgage principal and right to buy discount repayments.

We found one error on the pooling of housing capital receipts return and following amendment we certified the amount payable to the pool without qualification.

## 2. 2012-13 certification fees

For 2012-13 the Audit Commission replaced the previous schedule of maximum hourly rates with a composite indicative fee for certification work for each body. The indicative fee was based on actual certification fees for 2010-11 adjusted to reflect the fact that a number of schemes would no longer require auditor certification. There was also a 40 per cent reduction in fees reflecting the outcome of the Audit Commission procurement for external audit services.

The indicative composite scale fee for South Cambridgeshire District Council for 2012-13 was £16,150. The actual fee for 2012-13 was £24,710. This compares to a charge of £27,067 in 2011-12.

Claim or return	2011-12	2011-12	2012-13	2012-13
	Actual fee £	2011-12 fee less 40% reduction £	Indicative fee £	Actual fee £
Housing and council tax benefits subsidy claim	23,258	13,955	12,340	20,900
National Non Domestic Rates return	2,675	1,605	2,675	2,675
Pooling of housing capital receipts	1,134	681	1,135	1,135
Certification of claims and returns - annual report	Included in claims fee above		-	Included in claims fee above
Grant planning, supervision and review (1)	Included in claims fee above		-	Included in claims fee above
<b>Total</b>	<b>27,067</b>	<b>16,241</b>	<b>16,150</b>	<b>24,710</b>

Fees for annual reporting and for planning, supervision and review have been allocated directly to the claims and returns.

The fees for 2012-13 were calculated based on those for 2010-11 less 40%.

The Authority significantly reduced its grants fee in 2011-12 by undertaking the initial testing on the Housing and council tax benefits subsidy claim.

Fees fell overall compared to 2010-11 because of the Audit Commission's 40% reduction. However, after allowing for the 40% reduction there was a small increase in fees for the following claims and returns:

► Housing and council tax benefits subsidy

There has been an increase in the overall fee due to the additional work undertaken to certify the claim. In 2010-11 there was no additional 40+ testing was required. In 2012-13 this increased to three sets of additional testing, one set of 40+ testing for two error types and two sets of full populations testing leading to amendments to the claim.

We agreed the proposed fees with the Executive Director – Corporate Services in November 2013. We are currently awaiting approval of the proposed fees by the Audit Commission.

### 3. Looking forward

For 2013-14, the Audit Commission has calculated indicative certification fees based on the latest available information on actual certification fees for 2011-12, adjusted for any schemes that no longer require certification. The Audit Commission has indicated that the national non-domestic rates return will not require certification from 2013-14.

The Council's indicative certification fee for 2013-14 is £4,900. The actual certification fee for 2013-14 may be higher or lower than the indicative fee, if we need to undertake more or less work than in 2011-12 on individual claims or returns. Details of individual indicative fees are available at the following link: <http://www.audit-commission.gov.uk/audit-regime/audit-fees/201314-fees-and-work-programme/individual-certification-fees/>

We must seek the agreement of the Audit Commission to any proposed variations to indicative certification fees. The Audit Commission expects variations from the indicative fee to occur only where issues arise that are significantly different from those identified and reflected in the 2011-12 fee.

The Audit Commission has changed its instructions to allow appointed auditors to act as reporting accountants where the Commission has not made or does not intend to make certification arrangements. This removes the previous restriction saying that the appointed auditor cannot act if the Commission has declined to make arrangements. This is to help with the transition to new certification arrangements, such as those DCLG will introduce for business rates from 1 April 2013.

Ernst & Young LLP

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# Agenda Item 7

## South Cambridgeshire District Council

Year ending 31 March 2014

Audit Plan

10 March 2014



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Corporate Governance Committee  
South Cambridgeshire District Council  
South Cambridgeshire Hall  
Cambourne Business Park  
Cambourne  
Cambridgeshire CB23 6EA

10 March 2014

Dear Members

## 2013-14 Audit Plan

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. The purpose of this report is to provide the Corporate Governance Committee with a basis to review our proposed audit approach and scope for the 2014 audit, in accordance with the requirements of the Audit Commission Act 1998, the Code of Audit Practice, the Standing Guidance, auditing standards and other professional requirements, but also to ensure that our audit is aligned with the Committee's service expectations.

This report summarises our assessment of the key risks which drive the development of an effective audit for South Cambridgeshire District Council, and outlines our planned audit strategy in response to those risks.

We welcome the opportunity to discuss this report with you as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully



Mark Hodgson  
Audit Director  
For and behalf of Ernst & Young LLP  
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In March 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the Chief Executive of each audited body and via the [Audit Commission's website](#).

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

**Our Complaints Procedure** – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

# 1. Overview

## 1.1 Context for the audit

This audit plan covers the work that we plan to perform in order to provide you with:

- ▶ Our audit opinion on whether the Council's financial statements give a true and fair view of its financial position as at 31 March 2014 and of the income and expenditure for the year then ended; and
- ▶ A statutory conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

We will also review and report to the National Audit Office ('NAO'), to the extent and in the form required by them, on your Whole of Government Accounts return.

When planning the audit we take into account several key inputs:

- ▶ Strategic, operational and financial risks relevant to the financial statements.
- ▶ Developments in financial reporting and auditing standards.
- ▶ The quality of systems and processes.
- ▶ Changes in the business and regulatory environment.
- ▶ Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter. And by focusing on the areas that matter, our feedback is more likely to be relevant to the Council.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

In parts 2 and 3 of this report we provide more detail on the areas which we believe present significant risk to the financial statements audit and our value for money conclusion. We also outline our plans to address these risks.

Details of our audit process and strategy are set out in section 4.

## 2. Financial statement risks

We outline below our assessment of the key strategic or operational risks and the resulting financial statement risks facing South Cambridgeshire District Council. These have been identified through our knowledge of the entity's operations and discussion with members and officers.

Significant risks (including fraud risks)	Our audit approach
<b>Fraud and management override risk</b>	
<p>ISA (UK&amp;I) 240 requires that we plan our audit work to consider the risk of fraud. This includes consideration of the risk that management may override controls in order to manipulate the financial statements.</p> <p>Management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has put in place a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.</p> <p>Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk.</p> <p>One area which may be particularly susceptible to manipulation is the capitalisation of revenue expenditure on Property, Plant and Equipment given the extent of the Council's Capital programme.</p>	<p>Based on the requirements of auditing standards our approach will focus on:</p> <ul style="list-style-type: none"> <li>▶ Identifying fraud risks during the planning stages.</li> <li>▶ Inquiry of management about risks of fraud and the controls put in place to address those risks.</li> <li>▶ Understanding the oversight given by those charged with governance of management's processes over fraud.</li> <li>▶ Consideration of the effectiveness of management's controls designed to address the risk of fraud.</li> <li>▶ Determining an appropriate strategy to address those identified risks of fraud.</li> <li>▶ Performing mandatory procedures regardless of specifically identified fraud risks.</li> <li>▶ We will consider the results of the National Fraud Initiative and may make reference to it in our reporting to you.</li> <li>▶ We will test the additions to the Property, Plant and Equipment balance to ensure that they are properly classified as capital expenditure.</li> </ul>
<b>Localisation of business rates retention</b>	
<p>There have been significant changes in the business rate retention arrangements from April 2013. The detailed accounting transactions for the new arrangement are not yet clear and this therefore presents a risk in terms of the financial statements.</p> <p>One of the main changes is that individual councils now need to provide for rating appeals. This includes not only claims from 1 April 2013 but claims that relate to earlier periods. As appeals are made to the Valuation Office, Councils may not be aware of the level or extent of claims. Councils may also find it difficult to obtain sufficient information to establish a reliable estimate for the appeal provision.</p>	<ul style="list-style-type: none"> <li>▶ We will review the detailed accounting for business rates to ensure the Council's accounts are materially accurate and compliant with the CIPFA Code of practice.</li> <li>▶ We will review the Council's provision for business rate appeals to ensure it has been calculated on a reasonable basis in line with IAS 37. As part of this we will ensure the provision is supported by appropriate evidence and that the level of estimation uncertainty is adequately disclosed in the accounts.</li> </ul>
<b>Property Asset Valuation</b>	
<p>Due to the complexity in accounting for property, plant and equipment and the material values involved, there is a higher risk that asset valuations contain material misstatements.</p>	<p>Our approach will focus on</p> <ul style="list-style-type: none"> <li>▶ Reliance on management's experts</li> <li>▶ Reliance on auditor experts</li> <li>▶ Test of detail if required</li> </ul>
<b>Other accounting and auditing risks:</b>	
<b>Formation of trading company</b>	
<p>The Council have set up a wholly owned subsidiary trading company in 2012/13. The company is expected to have limited transactions, if any, in 2013/14. If transactions are included within the company financial statements, the Council will need to consider the requirements for the production of group accounts.</p>	<p>We will review either:</p> <ul style="list-style-type: none"> <li>▶ The council's proposal for not requiring group accounts: or</li> <li>▶ The group accounts and required disclosures.</li> </ul>

We will provide an update to the Corporate Governance Committee on the results of our work in these areas in our report to those charged with governance scheduled for delivery in September 2014.



### 3. Economy, efficiency and effectiveness

Our work will focus on:

1. Whether there are proper arrangements in place for securing financial resilience at South Cambridgeshire District Council; and
2. Whether there are proper arrangements in place at the Council to secure economy, efficiency and effectiveness in the use of resources.

We have undertaken a high-level summary of our risk assessment and have not identified any significant risks. We have identified the following areas that we will focus on as part of our assessment.

Area of focus	Our audit approach
<b>Pressures from economic downturn</b>	
<p>To date the Council has responded well to the financial pressure resulting from the continuing economic downturn. However, the Comprehensive Spending Review will continue to impact on the Council's budget and Medium Term Financial Strategy during current and forthcoming financial years.</p>	<p>Our approach will continue to focus on:</p> <ul style="list-style-type: none"> <li>▶ The adequacy of the Council's budget setting process.</li> <li>▶ The robustness of any assumptions.</li> <li>▶ The effective use of scenario planning to assist the budget setting process.</li> <li>▶ The effectiveness of in year monitoring against the budget.</li> <li>▶ The Council's approach to prioritising resources.</li> </ul>
<b>Localisation of business rates retention</b>	
<p>From April 2013, the Council will be able to retain some of its income from local business rates rather than paying the full amount back to central government. This localisation of business rates will impact upon the Council's income levels and the future impact on the Medium Term Financial Strategy assumptions.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> <li>▶ Whether outcomes of the new arrangements are in line with the Council's plan and the impact on the Council's Budget.</li> </ul>
<b>Approach to local council tax support</b>	
<p>The Local Council Tax Support (LCTS) scheme took effect from April 2013. This will require the Council to set locally appropriate levels of council tax support.</p> <p>The move to LCTS represents a significant change for the Council and brings both financial and reputational risks.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> <li>▶ The outcomes from the development and implementation of LCTS.</li> <li>▶ How the Council's move to LCTS has impacted on the budget setting process.</li> </ul>

## 4. Our audit process and strategy

### 4.1 Objective and scope of our audit

Under the Audit Commission's Code of Audit Practice (the Code), dated March 2010, our principle objectives are to review and report on, to the extent required by the relevant legislation and the requirements of the Code, the Council's:

- ▶ Financial statements; and
- ▶ Arrangements for securing economy, efficiency and effectiveness in the use of resources

We issue a two-part auditor's report covering both of these objectives.

#### 4.1.1 Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland).

We will also review and report to the National Audit Office ('NAO'), to the extent and in the form required by them, on your Whole of Government Accounts return.

#### 4.1.2 Arrangements for securing economy, efficiency and effectiveness

The Code sets out our responsibility to satisfy ourselves that the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In arriving at our conclusion, to the fullest extent possible we will place reliance on the reported results of the work of other statutory inspectorates in relation to corporate or service performance. In examining the Council's corporate performance management and financial management arrangements we have regard to the following criteria and areas of focus specified by the Audit Commission:

- ▶ Arrangements for securing financial resilience – whether the Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future; and
- ▶ Arrangements for securing economy, efficiency and effectiveness – whether the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

### 4.2 Audit process overview

Our audit approach is to assess the Council's level of internal controls and to place reliance upon those controls where our assessment allows.

In doing so, we will look to rely upon the work of Internal Audit as much as possible whilst complying with the requirements of auditing standards. We have discussed our requirements with Internal Audit, establishing which financial systems they are reviewing this year and have built this in to our work plan:

### **4.2.1 Processes**

Our initial assessment of the key processes across the entity has identified the following key processes where we will seek to rely on key controls:

- ▶ Procure to pay
- ▶ Accounts receivable

### **4.2.2 Analytics**

We will aim to use our computer-based analytics tools to enable us to capture whole populations of financial data, in particular in respect of payroll and journal entries. These tools:

- ▶ Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- ▶ Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Corporate Governance Committee.

### **4.2.3 Internal audit**

As in prior years, we will review internal audit plans and the results of work undertaken. We will reflect the findings from these reports, together with reports from other work completed in the year, in our detailed audit approach, when issues are raised that could impact the year-end financial statements.

We will seek to place reliance on the work of internal audit wherever possible in line with auditing standards.

### **4.2.4 Mandatory procedures**

We will undertake the following mandatory procedures as required by auditing standards:

- ▶ Addressing the risk of fraud and error.
- ▶ Reviewing significant disclosures included in the financial statements.
- ▶ Assessing entity-wide controls.
- ▶ Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements.

The following procedures are also required by the Code:

- ▶ Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement.
- ▶ Reviewing and reporting on the Whole of Government accounts return, in line with the instructions issued by the NAO.

- ▶ Reviewing, and where appropriate, examining evidence that is relevant to the Council's corporate performance management and financial management arrangements and reporting on these arrangements.

### **4.3 Materiality**

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with the Authority its expectations regarding our detection of misstatements in the financial statements.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

ISA (UK & Ireland) 450 (revised) requires us to record all misstatements identified except those that are "clearly trivial". All uncorrected misstatements found above this level will be presented in our year-end report.

### **4.4 Fees**

The Audit Commission has published a scale fee for all authorities. The scale fee is defined as the fee required by auditors to meet statutory responsibilities under the Audit Commission Act in accordance with the Code of Audit Practice 2010. The indicative fee scale for the audit of South Cambridgeshire District Council is £68,400. Further information is provided in Appendix A.

### **4.5 Your audit team**

The engagement team is led by Mark Hodgson, who has significant experience of South Cambridgeshire District Council and other local government bodies. Mark is supported by Rachel Brittain who is responsible for the day-to-day direction of audit work, and who is the key point of contact for the finance team.

### **4.6 Timetable of communication, deliverables and insights**

We have set out below a timetable showing the key stages of the audit, including the value for money conclusion work and the Whole of Government Accounts (WGA); and the deliverables we have agreed to provide to you through the Corporate Governance Committee cycle in 2014. These dates are determined to ensure our alignment with the Audit Commission's rolling calendar of deadlines.

We will provide a report to the Corporate Governance Committee in September 2014, detailing the findings from our year end audit. From time to time matters may arise that require immediate communication with the Corporate Governance Committee and we will discuss them with the Chairman of the Corporate Governance Committee as appropriate.

Following the conclusion of our audit we will prepare an annual audit letter in order to communicate to the Authority and external stakeholders, including members of the public, the key issues arising from our work.

Audit phase	Timetable	Deliverables
High level planning:	<b>April 13</b>	Audit Fee letter
Risk assessment and setting of scopes	<b>December 13 to February 14</b>	Audit Plan
Testing of routine processes and controls	<b>February 14 to April 14</b>	
Year-end audit	<b>July 14 to September 14</b>	Report to 'Those charged with governance' Audit report (including our opinion on the financial statements and a conclusion as to whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This will also report on our Whole of Government accounts work). Audit completion certificate
Reporting	<b>October 14</b>	Annual Audit Letter

In addition to the above formal reporting and deliverables we will seek to provide practical business insights and updates on regulatory matters.

## 5. Independence

### 5.1 Introduction

The APB Ethical Standards and ISA (UK and Ireland) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our independence and objectivity. The Ethical Standards, as revised in December 2010, require that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	Final stage
<ul style="list-style-type: none"> <li>▶ The principal threats, if any, to objectivity and independence identified by Ernst &amp; Young (EY) including consideration of all relationships between the you, your affiliates and directors and us;</li> <li>▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;</li> <li>▶ The overall assessment of threats and safeguards;</li> <li>▶ Information about the general policies and process within EY to maintain objectivity and independence.</li> </ul>	<ul style="list-style-type: none"> <li>▶ A written disclosure of relationships (including the provision of non-audit services) that bear on our objectivity and independence, the threats to our independence that these create, any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;</li> <li>▶ Details of non-audit services provided and the fees charged in relation thereto;</li> <li>▶ Written confirmation that we are independent;</li> <li>▶ Details of any inconsistencies between APB Ethical Standards, the Audit Commission's Standing Guidance and your policy for the supply of non-audit services by EY and any apparent breach of that policy; and</li> <li>▶ An opportunity to discuss auditor independence issues.</li> </ul>

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted.

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

### 5.2 Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. However we have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective.

#### 5.2.1 Self interest threats

A self interest threat arises when EY has financial or other interests in your entity. Examples include where we have an investment in your entity; where we receives significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we

enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved and that are in compliance with the Audit Commission's Standing Guidance

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard 4.

There are no other self interest threats at the date of this report.

### **5.2.2 Self review threats**

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

### **5.2.3 Management threats**

Partners and employees of EY are prohibited from taking decisions on behalf of management of your entity. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

### **5.2.4 Other threats**

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

### **5.2.5 Overall Assessment**

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Mark Hodgson, your audit engagement director and the audit engagement team have not been compromised.

## **5.3 Other required communications**

EY has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 28 June 2013 and can be found here: [UK 2013 Transparency Report](#)

## Appendix A Fees

A breakdown of our agreed fee is shown below

	Planned Fee 2013/14 £	Actual Fee 2012/13 £
Total Audit Fee – Code work	68,400	68,400
Certification of claims and returns*	15,600	16,150*

\*The actual fee for 2012/13 is currently being finalised by the Audit Commission.

The agreed fee presented above is based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables.
- ▶ We are able to place reliance, as planned, on the work of internal audit.
- ▶ The level of risk in relation to the audit of accounts is consistent with that in the prior year (where we have prior year experience).
- ▶ No significant changes being made by the Audit Commission to the use of resources criteria on which our conclusion will be based.
- ▶ Our accounts opinions and use of resources conclusion being unqualified.
- ▶ Appropriate quality of documentation is provided by the audited body.
- ▶ An effective control environment is in place.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with you in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

Our fee for the certification of grant claims is based on the indicative scale fee set by the Audit Commission.



## Appendix B UK required communications with those charged with governance

There are certain communications that we must provide to those charged with governance of audited clients. These are detailed here:

Required communication	Reference
<b>Planning and audit approach</b> Communication of the planned scope and timing of the audit including any limitations.	Audit Plan
<b>Significant findings from the audit</b> <ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	Report to those charged with governance
<b>Misstatements</b> <ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ In writing, corrected misstatements that are significant</li> </ul>	Report to those charged with governance
<b>Fraud</b> <ul style="list-style-type: none"> <li>▶ Enquiries of the Corporate Governance Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ A discussion of any other matters related to fraud</li> </ul>	Report to those charged with governance
<b>Related parties</b> Significant matters arising during the audit in connection with the entity's related parties including, when applicable: <ul style="list-style-type: none"> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the entity</li> </ul>	Report to those charged with governance
<b>External confirmations</b> <ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures</li> </ul>	Report to those charged with governance
<b>Consideration of laws and regulations</b> <ul style="list-style-type: none"> <li>▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off</li> <li>▶ Enquiry of the Corporate Governance Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Corporate Governance Committee may be aware of</li> </ul>	Report to those charged with governance
<b>Independence</b> Communication of all significant facts and matters that bear on EY's objectivity and independence. Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> </ul>	Audit Plan Report to those charged with governance

Required communication	Reference
<ul style="list-style-type: none"> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul>	
<p><b>Going concern</b></p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	<p>Report to those charged with governance</p>
<p><b>Significant deficiencies in internal controls identified during the audit</b></p>	<p>Report to those charged with governance</p>
<p><b>Certification work</b></p> <ul style="list-style-type: none"> <li>▶ Summary of certification work undertaken</li> </ul>	<p>Annual Report to those charged with governance summarising grant certification, and Annual Audit Letter if considered necessary</p>
<p><b>Fee Information</b></p> <ul style="list-style-type: none"> <li>▶ Breakdown of fee information at the agreement of the initial audit plan</li> <li>▶ Breakdown of fee information at the completion of the audit</li> </ul>	<p>Audit Plan</p> <p>Report to those charged with governance and Annual Audit Letter if considered necessary</p>

EY | Assurance | Tax | Transactions | Advisory

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# Protecting the Public Purse Fraud Briefing 2013 South Cambridgeshire District Council

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Agenda Item 8

# Agenda

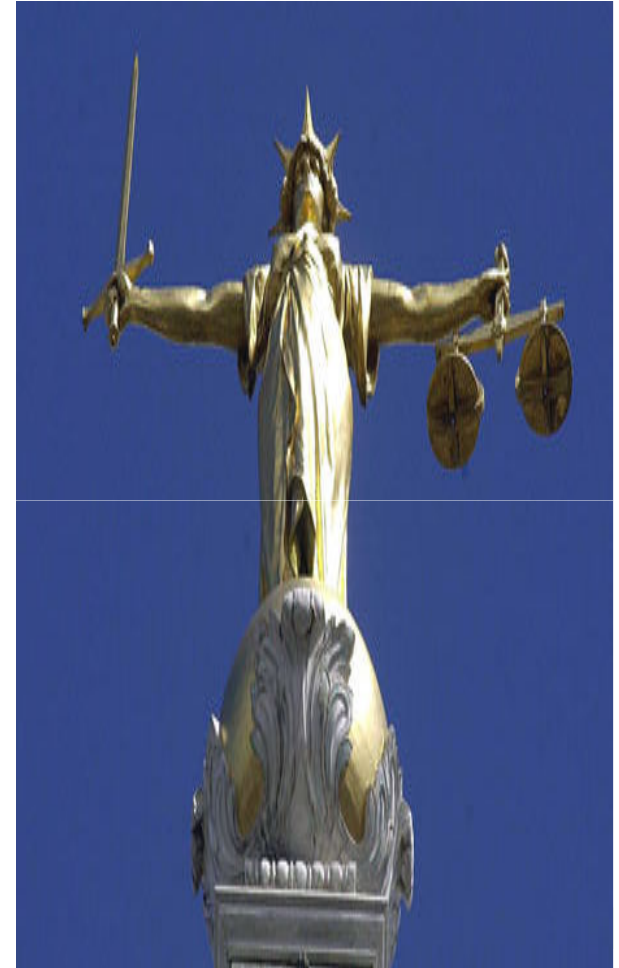
- Introduction and purpose of your Fraud Briefing
- *Protecting the Public Purse (PPP) 2013* report – national picture
- Interpreting fraud detection results
- The local picture
- Questions?

*And do not forget*

- Checklist for those charged with governance (Appendix 2 of PPP 2013)*
- Questions councillors may want to ask/consider (Appendix 3 of PPP 2013)*

# Introduction

- Fraud costs local government in England over £2 billion per year (*source: National Fraud Authority*)
- Fraud is never a victimless crime
- Councillors have an important role in the fight against fraud



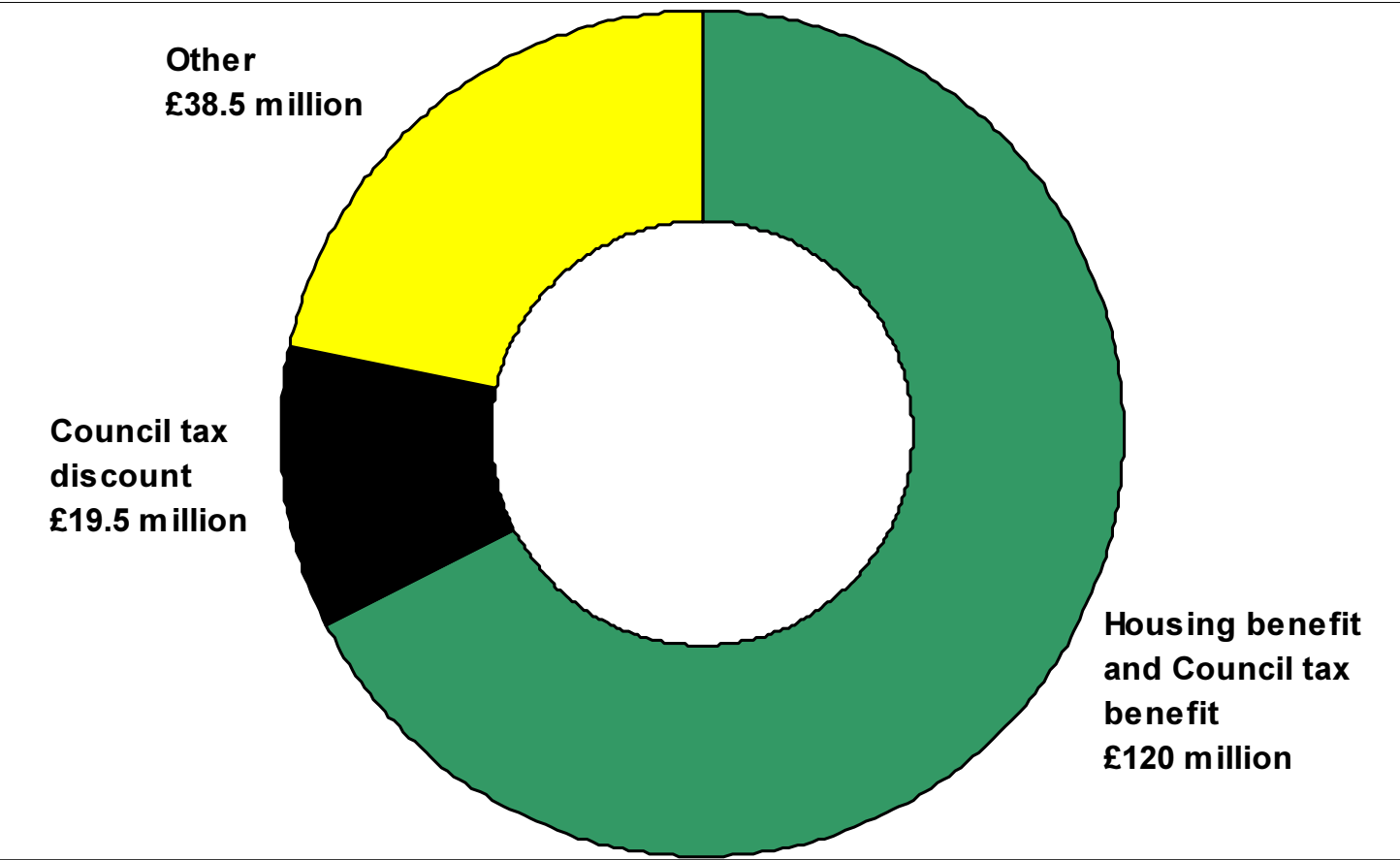
# Purpose of Fraud Briefing at your council

- Opportunity for councillors to consider fraud detection performance, compared to similar local authorities
- Reviews current counter fraud strategy and priorities
- Discuss local and national fraud risks
- Reflect local priorities in a proportionate response to those risks



# National Picture 2012/13

Total cases detected 107,000, with a value of £178 million (excluding social housing fraud)



*Nationally, the number of detected frauds has fallen by 14% since 2011/12 and the value by less than 1%*

# Interpreting fraud detection results

- Contextual and comparative information needed to interpret results
- Detected fraud is indicative, not definitive, of counter fraud performance (Prevention and deterrence should not be overlooked)
- No fraud detected does not mean no fraud committed (Fraud will always be attempted and even with the best prevention measures some will succeed)
- Councils who look for fraud, and look in the right way, will find fraud (There is no such thing as a small fraud, just a fraud that has been detected early)

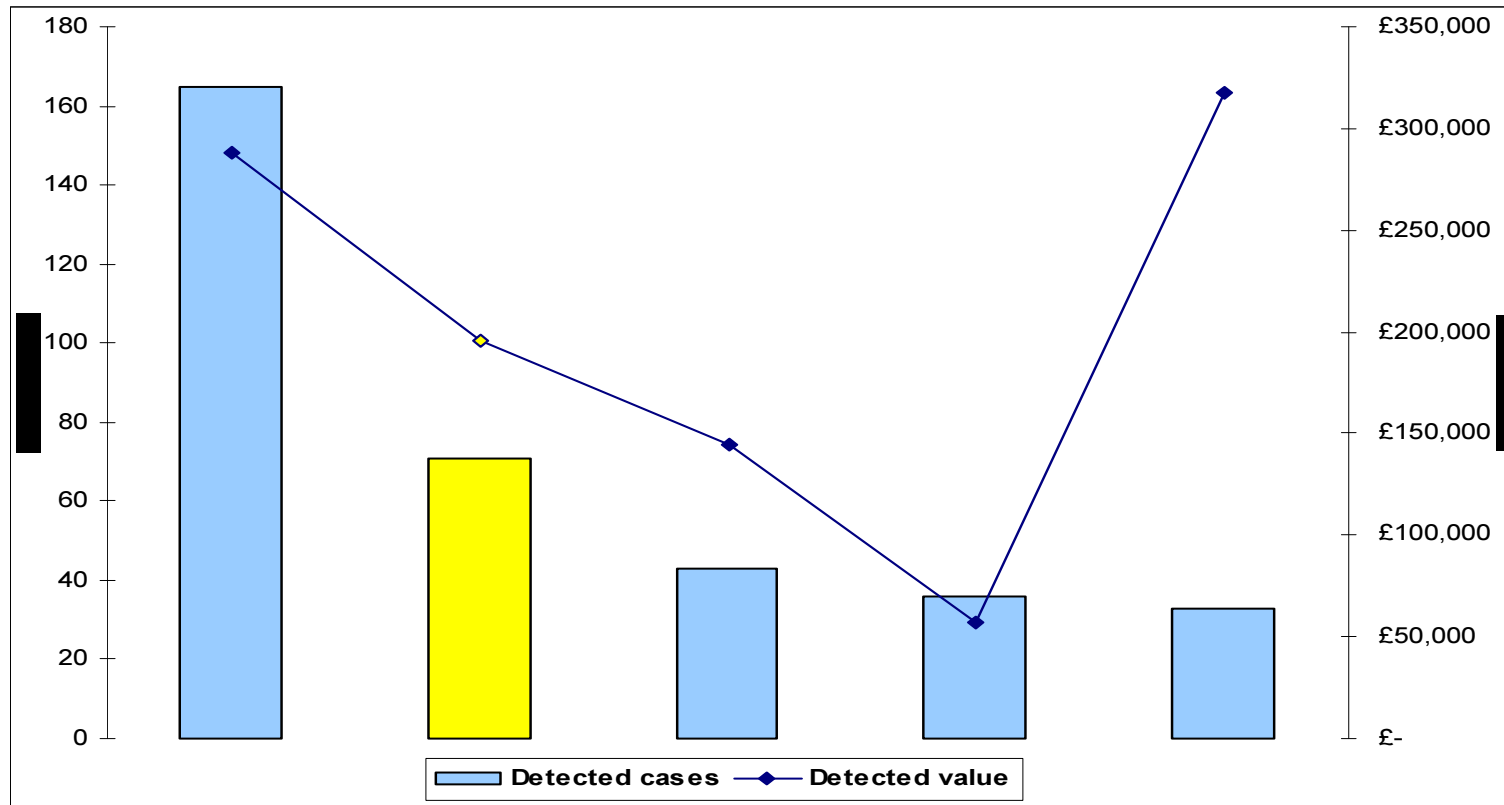
*Your council is highlighted in yellow in the graphs that follow*

# The local picture

## How your council compares to other district councils in your county area

### Total detected cases and value 2012/13

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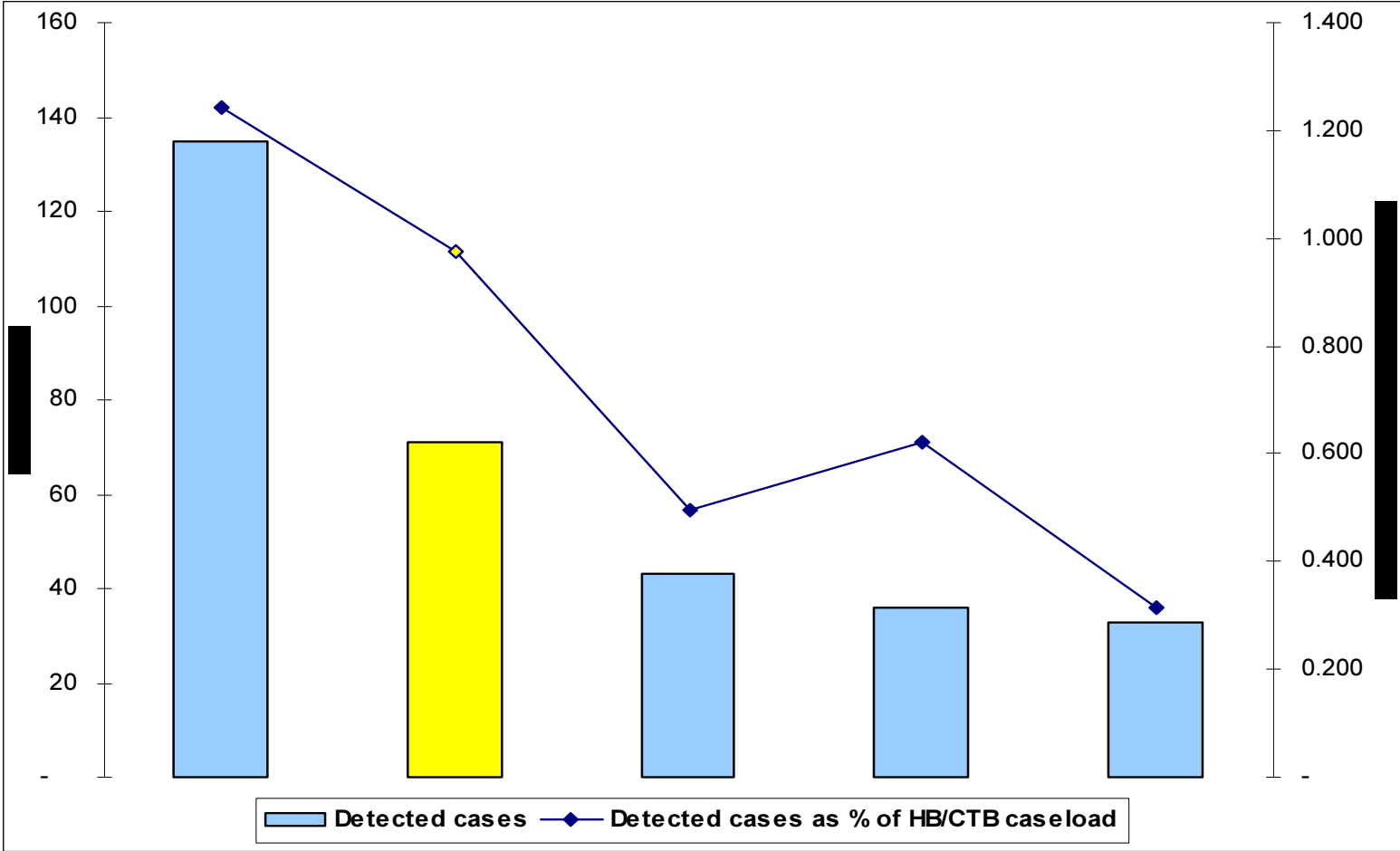
South Cambridgeshire detected: 71 cases, valued at £195,228

DC average for your county area: 70 cases, valued at £200,336



**District councils in your county area 2012/13**  
**Housing benefit (HB) and Council tax benefit (CTB) fraud**  
**Detected cases and detected cases as a percentage of HB/CTB caseload**

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South Cambridgeshire detected: 71 cases, valued at £195,228

DC average for your county area: 64 cases, valued at £199,136

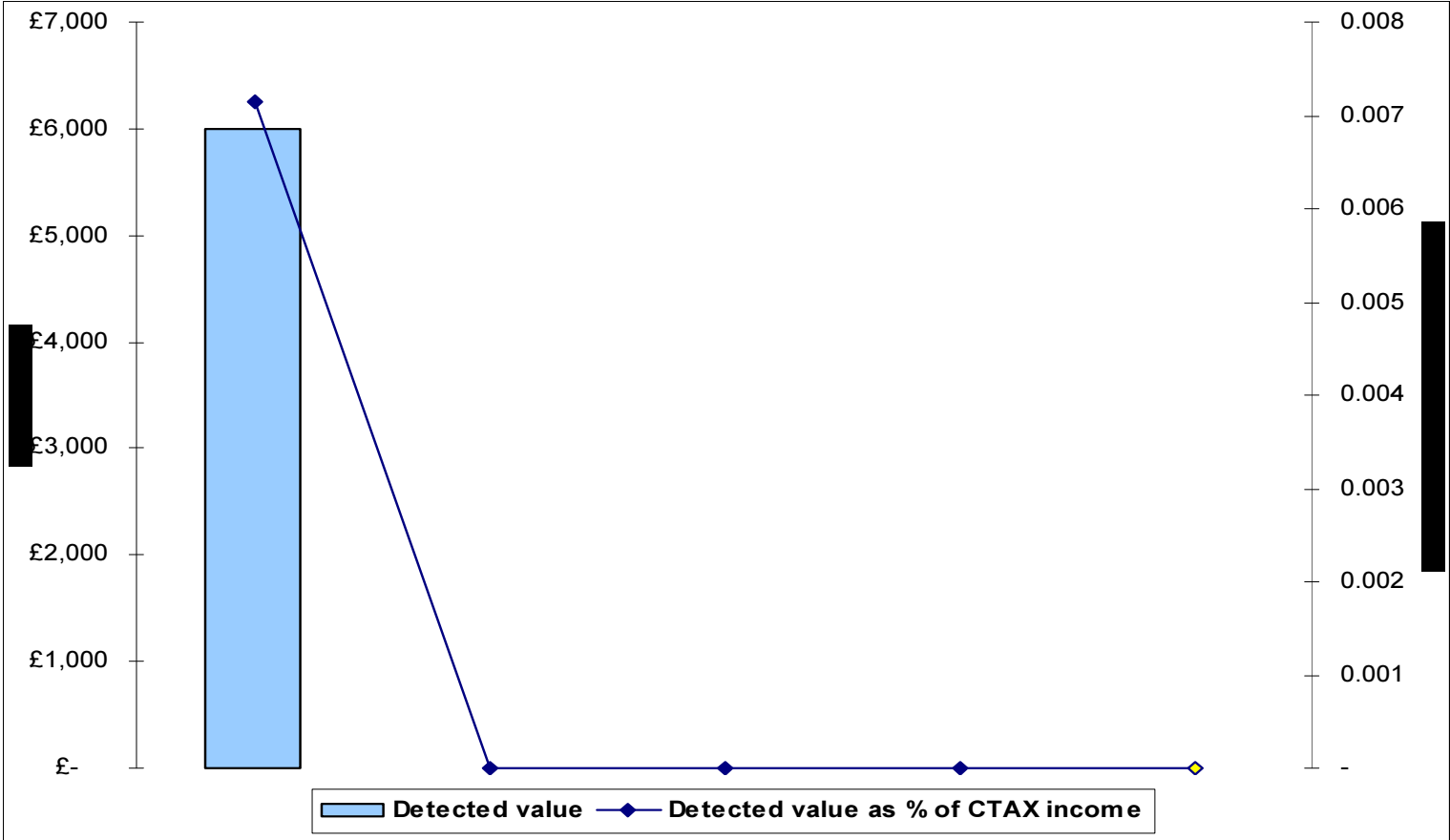


# District councils in your county area 2012/13

## Council tax (CTAX) discount fraud

### Detected value and detected value as a percentage of council tax income

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South Cambridgeshire detected: no cases

DC average for your county area: 6 cases, valued at £1,200

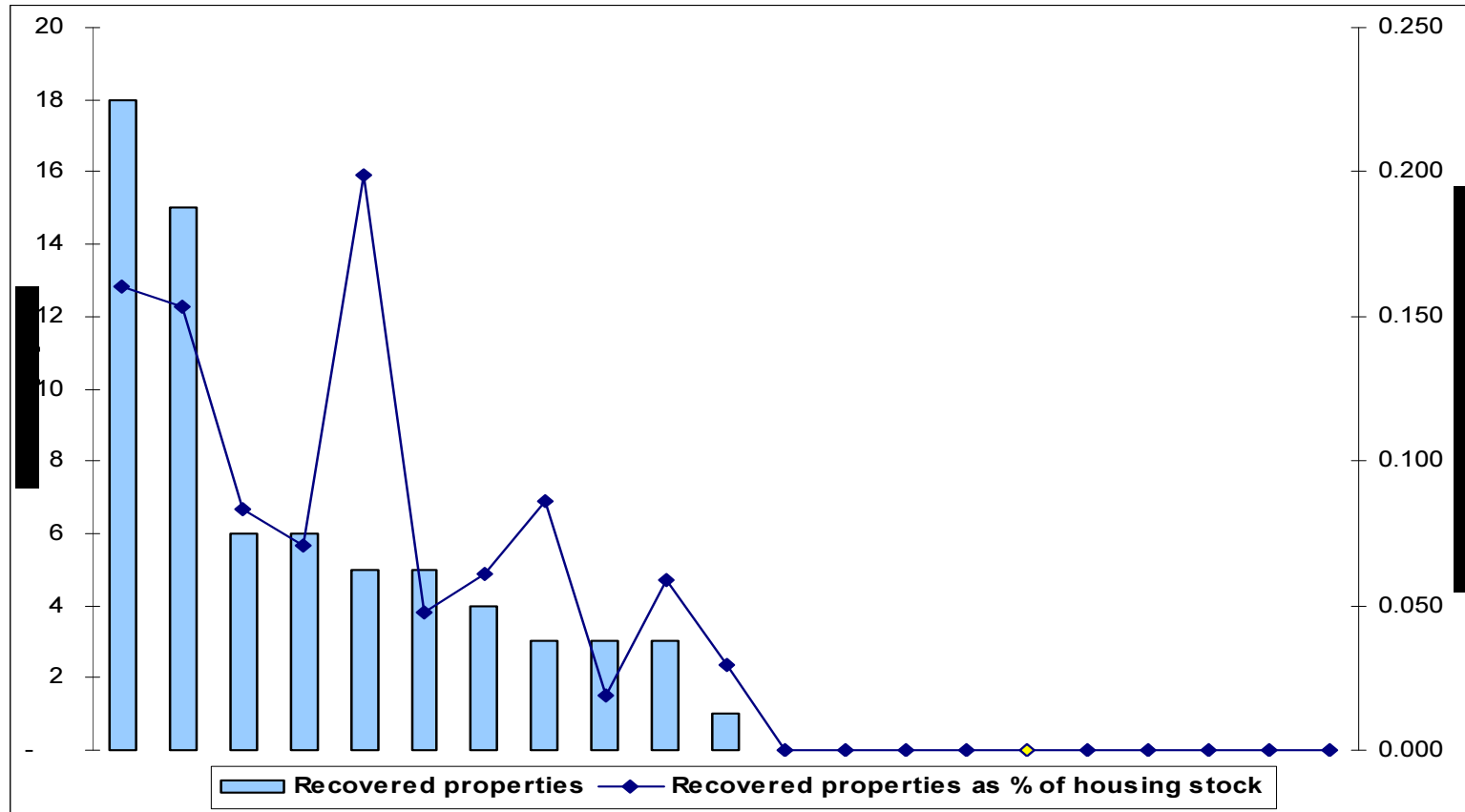


# East of England region - district councils with housing stock 2012/13

## Social housing fraud

### Properties recovered and properties recovered as a percentage of housing stock

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South Cambridgeshire recovered: no properties

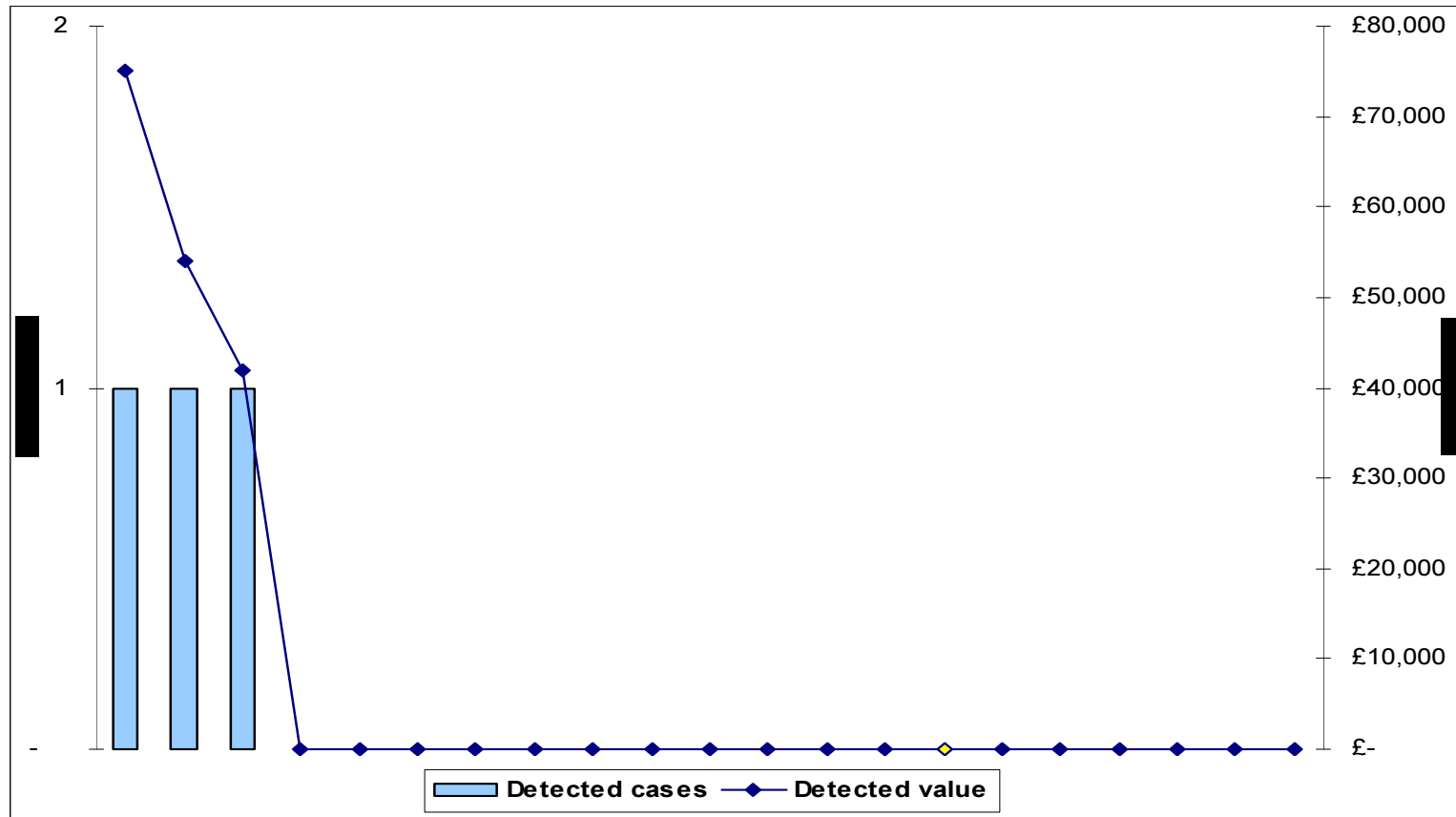
East of England regional average: 3 properties

# East of England region - district councils with housing stock 2012/13

## Right to buy fraud

### Detected cases and detected value

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South Cambridgeshire detected: no cases

East of England region total detected: 3 cases, valued at £171,000



# South Cambridgeshire District Council

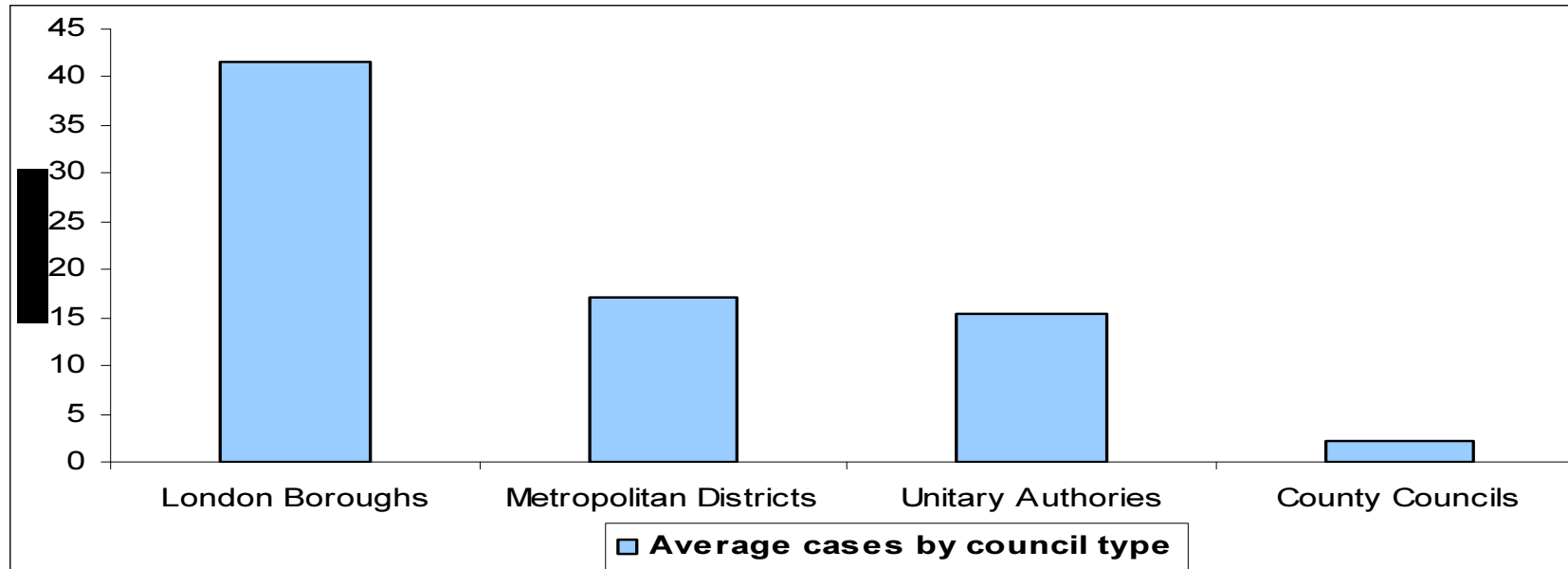
## Other frauds

- **Procurement:** no cases  
*(Ave per DC in your county area: no cases  
Total for all local government bodies in your region: 6 cases, valued at £364,870)*
- **Insurance:** no cases  
*(Ave per DC in your county area: no cases  
Total for all local government bodies in your region: 1 case, valued at £48,000)*
- **Economic & Third sector:** no cases  
*(Ave per DC in your county area: no cases  
Total for all local government bodies in your region: 1 case, valued at £30,000)*
- **Internal fraud:** no cases  
*(Ave per DC in your county area: no cases  
Total for all local government bodies in your region: 58 cases, valued at £405,311)*

*Correctly recording fraud levels is a central element in assessing fraud risk  
It is best practice to record the financial value of each detected case*



## Disabled parking (Blue Badge) fraud Detected cases by issuing council type



In two-tier areas:

- county councils have administrative responsibility for issuing blue badges
- district councils face reduced car parking income as a result of the fraudulent abuse of blue badges.

# Any questions?



## Local Government Audit Committee briefing

### Contents at a glance

#### Sector and economic news

#### Accounting, auditing and governance

#### Regulation news

#### Find out more

## Introduction

This sector briefing is one of the ways that we hope to continue to support you and your organisation in an environment that is constantly changing and evolving.

It covers issues which may have an impact on your organisation, the Local Government sector and the audits that we undertake. The public sector audit specialists who transferred from the Audit Commission form part of EY's national Government and Public Sector (GPS) team. Their extensive public sector knowledge is now supported by the rich resource of wider expertise across EY's UK and international business. This briefing reflects this, bringing together not only technical issues relevant to the Local Government sector but wider matters of potential interest to you and your organisation.

Links to where you can find out more on any of the articles featured can be found at the end of the briefing, as well as some examples of areas where EY can provide support to Local Authority bodies. We hope that you find the briefing informative and should this raise any issues that you would like to discuss further please do contact your local audit team.





## Sector and economic news

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### **Economic Outlook**

The ITEM Club, one of the UK's foremost independent economic forecasting groups, sponsored by EY, published its Winter Forecast in January 2014. It recognises that the UK's economic rebound is continuing to exceed expectations with GDP now projected to grow by 2.7% in 2014 followed by 2.4% in 2015.

Although this headline news is positive, the reality is more complex. The current recovery is lopsided in two ways. The first is that it's being driven almost exclusively by consumer spending and housing. Until rising business confidence is matched by a revival in investment and exports, the upturn will be neither balanced nor sustainable.

The second imbalance is that, despite rising employment, real wages are continuing to fall. This gap reflects a number of structural shifts in the workforce, and should close by the start of 2015. But its effect is that consumer spending cannot continue to drive the recovery without triggering a new and unwelcome rebound in household debt.

EY ITEM Club notes: 'this situation poses a dilemma for the Bank of England's Monetary Policy Committee as it gauges when to raise interest rates.'

With employment rising but real wages falling, the unemployment rate alone is too blunt a measure. Instead, the MPC must hold interest rates steady until real wages and business investment are rising. Otherwise it risks aborting the recovery before it reaches escape velocity.'

### **Enhancements to Bellwin Grant**

The government is changing the terms of the Bellwin scheme to help local authorities meet costs associated with the recent severe weather. The changes will ensure the grant is paid at 100% above the threshold instead of 85%, extend the eligible spending period to the end of March 2014, reduce the thresholds for county councils and unitary authorities, and allow upper tier authorities with fire responsibilities to claim on the same basis as standalone fire authorities for fire related costs.

The Bellwin scheme was activated in December 2013. Ministers have also committed to a longer term review of the Bellwin scheme to consider changes to its operation which may be required due to more frequent and challenging weather events.



## Sector and economic news

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### **Making best use of the Better Care Fund**

Announced by the government in the June 2013 spending round, the £3.8bn Integration Transformation Fund now known as the Better Care Fund is described as 'a single pooled budget for health and social care services to work more closely together in local areas, based on a plan agreed between the NHS and Local Authorities'. The Fund, available from April 2015, offers an opportunity to bring resources together to address immediate pressures on services and lay foundations for a much more integrated system of health and care. The intention is that social care and health care be fully integrated by 2018.

For Local Authorities, this will require the contribution of the Social Care Capital grant and Disabled Facilities Grant allocations for 2015/16 to the pooled budget.

Health and Wellbeing Board areas were required to submit a draft plan for their use of this fund by 14th February, and the revised plan by 4th April 2014. The King's Fund has published 'Making best use of the Better Care Fund – Spending to Save?' which 'offers an evidence-based guide to aid the discussions between clinical commissioning groups, Local Authorities and health and wellbeing boards' and presents evidence from The King's Fund and others in a number of different areas including primary prevention, selfcare, and case management.



# Accounting, auditing and governance

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## Greater Business Challenges call for Stronger Audit Committees

Audit committees have traditionally comprised of people with deep finance and accounting expertise, a reflection of the committee's statutory financial control and reporting oversight duties. But, in recent years, the business environment has become more complex and its role has expanded, leading many boards and audit committees to rethink the skills they need.

The audit committee's remit now includes overseeing risk management, compliance and a series of emerging business risks in areas such as bribery, corruption and cybersecurity.

This increased responsibility includes a call by some regulators for 'stronger audit committees' to oversee the regulatory and business risks that organisations face.

Participants surveyed for the EY report, Greater business challenges call for stronger audit committees, identified diversity of culture, roles and experience as the most important elements of an effective audit committee.

Critical skills include:

- ▶ Financial expertise: the committee needs a keen understanding of internal controls and experience in disclosure to its key stakeholders.
- ▶ Accounting and auditing expertise: one of the most critical audit committee responsibilities is overseeing the internal and external auditors. The committee needs at least one member who has experience working with both functions, and someone who understands accounting rules and how to apply them.
- ▶ Leadership: the committee should include someone who has hands-on experience of leading in an operational role within an organisation. In particular, audit committees would benefit from people who have been CEOs and CFOs.
- ▶ Industry or sector knowledge: it's important to have members with sector-specific knowledge – including an understanding of the regulatory environment.



## Regulation news

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### **Business rates valuation: a consultation**

Since 1 April 2013, local government has had a 50% share in business rates income, meaning that local authorities now carry a 50% share of the risk of reductions and refunds from challenges against rateable value. This means that local authorities have to forecast the impact of successful challenges on their future income, a task made difficult by the large number of speculative challenges. The government has launched a consultation, which lasted for 12 weeks until 3 March 2014, on proposals aimed at reforming the appeals process. The objectives of the proposals under consultation are to:

- ▶ Improve transparency of the valuation process
- ▶ Bring business rates into line with the way official decisions are normally challenged
- ▶ Enshrine in law a more formal separation between the Valuation Office Agency (a government taxation setting body) and the Valuation Tribunal for England (the judicial body which reviews decisions made by the VOA)

The government intends to implement these proposals from 1 October 2014.

### **Technical Reforms to Council Tax: national discount for annexes**

Between August and October 2013, the government ran a consultation on the proposed introduction of a discount on the council tax for annexes, where such annexes are occupied by a member of the family of an occupier of the main dwelling. The responses to this consultation were published in December 2013, and the government is planning to implement its proposals. The majority of respondents supported the government's proposed discount of 50%. However, over half of respondents considered that the implementation of this policy would lead to extra costs, mainly in the areas of promotion, IT and administration. The government does not consider that the administration of the new discount will constitute a new burden, as under Regulation 14 of the Council Tax (Administration and Enforcement) Regulations 1992, billing authorities already have a statutory duty to ascertain whether a property is entitled to a discount. However, the overall cost of the discount will be reimbursed to billing authorities by DCLG.



## Regulation news

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### **Local Audit and Accountability Act 2014**

The Local Audit and Accountability Act 2014, which provides for the abolition of the Audit Commission and repeals the Audit Commission Act 1998, received Royal Assent on 30 January 2014. This Act makes provision for the Audit Commission to officially be wound down in 2015. The effective closure date will be 31 March 2015 and will bring to an end the Commission's 30 year involvement with public sector audit.

A transitional body will manage the current round of supplier contracts when they end in 2016/17 or, if extended, 2018/19. Subsequently, the new framework for public audit will replace the Audit Commission. When the existing contracts have run their course, local bodies will be able to appoint their own auditors, although local audit appointments will be overseen by an Independent Auditor Panel, and collective audit procurement will be enabled. Quality will be overseen by the Financial Reporting Council, as for Companies House audits.

The Audit Commission has identified where some of its key functions will be transferred to. These include:

- ▶ The National Fraud Initiative will transfer to the Cabinet Office on 1 April 2015.
- ▶ The National Audit Office will take on the statutory responsibility to produce and maintain the Code of Audit Practice and issue guidance to auditors.

The Commission is still in talks with several government departments to determine where other key areas which it is responsible for such as Value for Money and Counter Fraud will be transferred to.





## Find out more

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### **Economic Outlook**

See the full analysis at:

<http://www.ey.com/UK/en/Issues/Business-environment/Financial-markets-and-economy/ITEM---Forecast-headlines-and-projections>

### **Enhancements to Bellwin Grant**

Read more at:

<https://www.gov.uk/government/news/more-support-for-communities-affected-by-floods>

### **Making best use of the Better Care Fund**

Find out more at:

<http://www.local.gov.uk/documents/10180/12193/Developing+plans+for+better+care+fund+guidance.pdf/734c155e-7820-4761-976a-6c56053c0e78>

<http://www.kingsfund.org.uk/publications/making-best-use-better-care-fund>

### **Audit Committee Challenges**

Read the latest briefing at:

[http://www.ey.com/Publication/vwLUAssets/EY-Audit-Committee-Bulletin-Issue-5-October-2013/\\$FILE/EY-Audit-Committee-Bulletin-Issue-5-October-2013.pdf](http://www.ey.com/Publication/vwLUAssets/EY-Audit-Committee-Bulletin-Issue-5-October-2013/$FILE/EY-Audit-Committee-Bulletin-Issue-5-October-2013.pdf)

### **Consultation on checking and challenging your rateable value**

Find out more at:

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/263015/Checking\\_and\\_Challenging\\_your\\_Rateable\\_Value.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/263015/Checking_and_Challenging_your_Rateable_Value.pdf)

### **Technical Reforms to Council Tax: national discount for annexes**

Find out more at:

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/263411/131115-\\_Annex\\_A-\\_Draft\\_summary\\_of\\_responses\\_on\\_annexes\\_consultation-\\_pr.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/263411/131115-_Annex_A-_Draft_summary_of_responses_on_annexes_consultation-_pr.pdf)

### **Local Audit and Accountability Act 2014**

Find out more at:

<http://www.audit-commission.gov.uk/2014/01/finish-line-in-sight-for-audit-commission/>

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# Agenda Item 10



South  
Cambridgeshire  
District Council

**REPORT TO:** Corporate Governance Committee

12 March 2014

**LEAD OFFICER:** Head of Finance, Policy and Performance

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## **ANNUAL REVIEW OF RISK MANAGEMENT STRATEGY AND PROCESS**

### **Purpose**

1. The purpose of this report is for Corporate Governance Committee to conduct the annual review of the Council's Risk Management Strategy and process and agree any changes considered necessary.
2. This is not a key decision but it has been brought because:
  - (a) it enables Corporate Governance Committee to exercise its governance responsibility for risk management;
  - (b) annual review of the Risk Management Strategy and process is good practice to ensure that these remain relevant, adequate and effective.

### **Recommendations**

3. It is recommended that Corporate Governance Committee approves the proposed revised Risk Management Strategy, as set out at Appendix B to this report.

### **Reasons for Recommendations**

4. The proposed revised Risk Management Strategy has been updated to address recommendations resulting from Internal Audit's risk management review and to reflect the Council's Corporate Plan for 2014 to 2019 – it therefore represents appropriate application of risk management best practice to the Council's strategy and process.
5. The Strategic Risk Register, the risks included, assessments of their impact and/or likelihood, and associated control measures / sources of assurance, have been considered at the following meetings in 2013-14:
  - (a) Corporate and Customer Services Portfolio Holder meeting on 18 April 2013;
  - (b) Cabinet meeting on 27 June 2013;
  - (c) Cabinet meeting on 18 November 2013; and
  - (d) Cabinet meeting on 13 February 2014,these last two, as part of the Position Statement report on Finance, Performance and Risk. A review of strategic risks over the past 12 months gives Corporate Governance Committee assurance that the Council's Risk Management Strategy and process remain effective.

### **Background**

6. The Council's Risk Management Strategy was first adopted in January 2004 and has been updated several times since. It was last updated in June 2013, to address recommendations resulting from Internal Audit's risk management review, to reflect changes in the formats of risk registers reported to EMT and the Corporate and

Customer Services Portfolio Holder, and in line with recommendations from Corporate Governance Committee.

### Considerations

7. Corporate Governance Committee monitors the responsible portfolio holder's review and approval of the Council's Strategic Risk Register on an annual basis. The Corporate and Customer Services Portfolio Holder's reviews of the Strategic Risk Register during 2013-14 are summarised below:
  - (a) The portfolio holder has reviewed the Strategic Risk Register throughout the year, considering the risks included, the assessments of their impact and/or likelihood and associated control measures / sources of assurance; examples include:
    - (i) April 2013: The portfolio holder agreed Executive Management Team (EMT)'s recommendation that the Supported Housing risk likelihood score be reduced from 5 (almost certain) to 3 (possible);
    - (ii) June 2013: The portfolio holder agreed EMT's recommendations that the HRA Business Plan risk likelihood score be increased from 2 (unlikely) to 3 (possible), and that the Supported Housing risk impact score be increased from 2 (low) to 3 (medium); however, the portfolio holder decided to keep the Illegal Traveller Encampments or Developments risk likelihood score at 3 (possible) rather than reduce it to EMT's recommendation of 2 (unlikely);
    - (iii) November 2013: As the Business Improvement and Efficiency Programme was of significant importance to the authority, the portfolio holder agreed to include a risk related to it in the register; the portfolio holder agreed EMT's recommendations to reduce the HRA Business Plan likelihood score from 3 (possible) to 2 (unlikely) and to remove the Depot Size risk from the register as the service had moved to the new site;
    - (iv) February 2014: Cabinet agreed EMT's recommendations to reduce the Increase in numbers in Bed & Breakfast Accommodation risk likelihood score from 4 (likely) to 3 (possible) and to remove the Supported Housing risk from the register as the service had been negotiated with the commissioning authority;
  - (b) As a result of these reviews:
    - (i) one new risk relating to the Council's Business Improvement and Efficiency Programme has been included;
    - (ii) the impact/likelihood assessments of two risks (Increase in numbers in Bed & Breakfast Accommodation; and HRA Business Plan) have been reduced; and
    - (iii) two risks (Depot size, and Supported Housing) have been removed.
  - (c) This demonstrates that the Corporate and Customer Services Portfolio Holder has exercised his executive responsibility for risk management and that the Council's risk management process is effective.
8. **Appendix A** attached sets out all the recommendations resulting from internal audit's risk management review, together with management responses, actions taken and proposed updates to the Risk Management Strategy.
9. The proposed revised Risk Management Strategy is attached at **Appendix B**; suggested updates are shown as **highlighted text**.

## Options

10. Corporate Governance Committee could approve the changes proposed to address the internal audit recommendations and the Council's Corporate Plan for 2014 to 2019, and the resulting proposed revised Risk Management Strategy. (***This is the recommended option.***)
11. Alternatively, Corporate Governance Committee could suggest other improvements or enhancements to the Risk Management Strategy, risk management process or document formats.

## Implications

12. In the writing of this report, taking into account financial, legal, staffing, risk management, equality and diversity, climate change, community safety and any other key issues, the following implications have been considered:

### ***Risk Management***

13. The updated Risk Management Strategy will continue to ensure the authority has an effective risk management process, reflecting the authority's political arrangements and management structure and the Council's Aims, and providing appropriate ownership and assurance.

## Consultation responses (including from the Youth Council)

14. The review of the Risk Management Strategy has taken into account recommendations from Internal Audit's risk management review.
15. There were no consultation responses from the Corporate and Customer Services Portfolio Holder, members of EMT or members of Corporate Governance Committee that required changes to the Risk Management Strategy.

## Effect on Strategic Aims

### **Engagement – Engage with residents, parishes and businesses to ensure we deliver first class services and value for money.**

16. The annual review of the Council's Risk Management Strategy contributes to the Council's corporate governance responsibilities and ensures that risks involved in the delivery of the Council's Corporate Plan and in meeting its strategic Aims are identified and managed adequately and effectively.

## Background Papers

Where [the Local Authorities \(Executive Arrangements\) \(Meetings and Access to Information\) \(England\) Regulations 2012](#) require documents to be open to inspection by members of the public, they must be available for inspection: -

- (a) at all reasonable hours at the offices of South Cambridgeshire District Council;
- (b) on the Council's website; and
- (c) in the case of documents to be available for inspection pursuant to regulation 15, on payment of a reasonable fee required by the Council by the person seeking to inspect the documents at the offices of South Cambridgeshire District Council.

Internal Audit's risk management review.

**Report Author:** John Garnham - Head of Finance, Policy and Performance  
Telephone: (01954) 713101

## Appendix A

### Recommendations regarding the Risk Management Strategy resulting from Internal Audit's review of Risk Management

<i>Ref</i>	<i>Recommendation</i> [Categorisation]	<i>Management agreed actions</i>	<i>Update to Risk Management Strategy</i>
1	The Head of Finance, Policy and Performance stated that department managers should be aware of the Council's risk management commitments. To enhance this he is also looking into arranging risk management training, which audit would endorse. [Medium]	The Head of Finance, Policy and Performance will consult with relevant staff and Members regarding risk management training and then make the necessary arrangements.	Paragraph 9.2.1 already refers to learning and training – no update required.
2	As the Authority moves towards other ways of service delivery, we should ensure that actions are taken to include comprehensive risk management as part of the initial process. Consideration should be given to include further risk management training (or incorporate into existing internal training) for shared services, particularly including “the scope of risk; areas to consider” as per annex A of the Risk Management Strategy, and develop project management training to encourage project managers to proactively identify and manage project risks. [Low]	<p>(a) The Head of Finance, Policy and Performance will include risk management in relation to shared services, with appropriate cross references to the Project Management Toolkit, in the next update of the Risk Management Strategy, due to go to Corporate Governance Committee in March 2014.</p> <p>(b) The Head of Finance, Policy and Performance will include risk management in relation to shared services in the training arranged for staff and Members.</p> <p>(c) The Policy and Performance Manager will develop a bespoke project risk template for inclusion in the Project Management Toolkit and training programme to ensure project managers proactively identify and manage project risks (the template will complement the Council's corporate</p>	<p>(a) Paragraph 5.2.10 has been inserted to refer to shared services risk registers; other references to shared service risk management have been added at appropriate points throughout the strategy, including Annex H.</p> <p>(b) Paragraph 9.2.1 already refers to learning and training – no update required.</p> <p>(c) Not applicable to the Risk Management Strategy.</p>

<b>Ref</b>	<b>Recommendation</b> [Categorisation]	<b>Management agreed actions</b>	<b>Update to Risk Management Strategy</b>
		risk management methodology) projects in future project management training.	





# Draft

## Risk Management Strategy

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Annex A	The scope of risk; areas to consider
Annex B	Some of the risks to consider when making strategic decisions
Annex C	Strategic Risk Register CorVu report template
Annex D	Service Area Risk Register template
Annex E	Likelihood Assessment guidelines
Annex F	Impact Assessment guidelines
Annex G	Prioritisation matrix template
Annex H	Chart summarising the Council's arrangements for risk management

## 1. Purpose

- 1.1 South Cambridgeshire District Council's primary role is to fulfil its statutory obligations. The Council also has a Long Term Vision that South Cambridgeshire will continue to be the best place to live, work and study in the country. Our district will demonstrate impressive and sustainable economic growth. Our residents will have a superb quality of life in an exceptionally beautiful, rural and green environment.
- 1.2 Supporting the Vision is a Corporate Plan with three strategic Aims, which have associated Objectives and Actions:
- (a) **Engagement** – Engage with residents, parishes and businesses to ensure we deliver first class services and value for money;
  - (b) **Partnerships** – Work with partners to create opportunities for employment, enterprise, education and world-leading innovation;
  - (c) **Wellbeing** – Ensure that South Cambridgeshire continues to offer an outstanding quality of life for our residents.
- 1.3 The Council has a responsibility to consider risks involved in providing or enabling service delivery, both in fulfilment of its statutory obligations and in achieving its strategic aims. This strategy is a key part of strategic planning and an integral part of service planning and performance management. It sets out the arrangements for the identification, assessment, management and review of risks that may adversely affect the Council's services or the achievement of its aims and objectives.

## 2. Objectives

- 2.1 The Council's concern is to manage risk effectively, eliminating or controlling risk to an acceptable level. This is done by identification, assessment and management of potential risks, rather than reaction and remedy to past events.
- 2.2 The objectives of the strategy are to:
- (a) Integrate risk management into the culture of the Council, including a process to identify and report upon existing and emerging risks to the Council.
  - (b) Anticipate and respond to changing social, environmental, legislative and other requirements, as set out in **Annex A**.
  - (c) Manage risks in accordance with best practice, so that they are eliminated or controlled to an acceptable level.
  - (d) Raise awareness of the need for managers responsible for the Council's delivery of services to undertake risk management.
  - (e) Seek to improve the delivery of Council services and ensure that risks to the Council's reputation and public image are considered.
- 2.3 It will not always be feasible completely to eliminate risk. Indeed, calculated risk-taking may be required in certain circumstances to achieve innovative or creative solutions that will help to improve services to customers. However, reckless or unplanned risk-taking would never be acceptable.

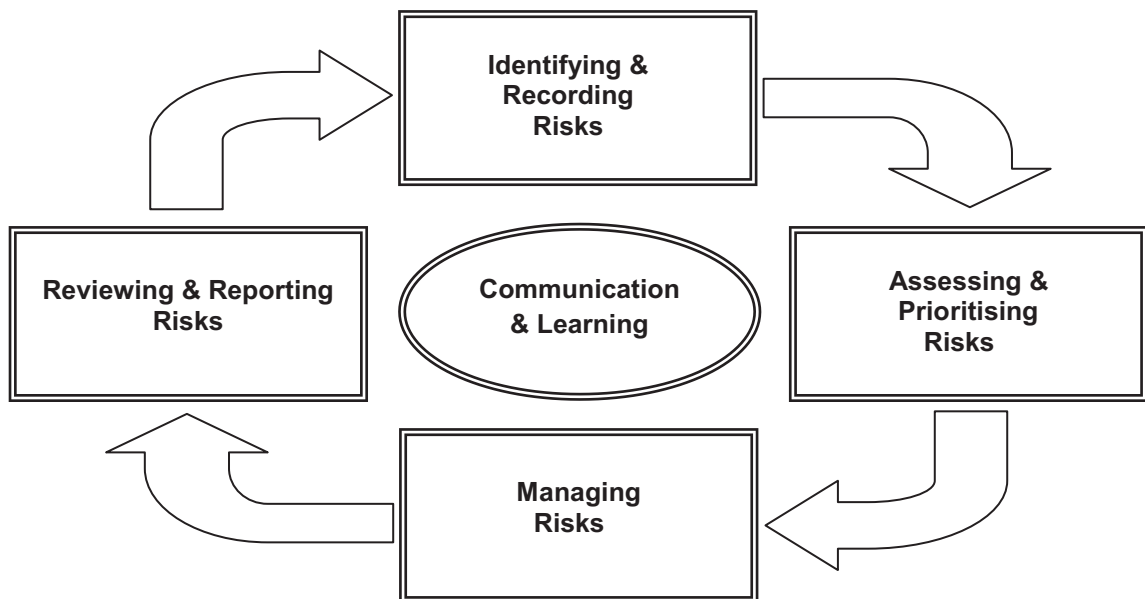
## 3. Guiding principles

- 3.1 To fulfil its risk management objectives, the Council shall:
- (a) Develop a culture that involves the participation of all appropriate staff in risk management.
  - (b) Secure the commitment of Members and management at all levels to promote risk management and provide leadership and direction, by endorsing the allocation of executive and governance roles between:

- the Corporate & Customer Services Portfolio Holder – the executive role – agreement and ownership of the Council’s strategic risk register, i.e. the strategic risks facing the Council;
  - the Corporate Governance Committee – the governance role – advice and assurance regarding the adequacy and effectiveness of the Council’s risk management strategy and process.
- (c) Adopt agreed standards of risk management that are monitored at corporate and service level and ensure that further action is taken where necessary.
  - (d) Ensure that regular identification, assessment and management of significant risks is integral to all corporate and service planning.
  - (e) Ensure that effective processes are in place to facilitate prompt remedial action on adverse events and their identification and reporting and to enable near misses to inform future action.
  - (f) Have effective communication to make sure everyone is sufficiently informed about risk management.
  - (g) Provide information, training, guidance and advice, as appropriate, to meet these objectives.

#### 4. Approach to risk management

4.1 The Council employs a simple four step process to manage its risks:



4.2 These steps are outlined in the sections below.

4.3 In accordance with best practice, risk management at the Council incorporates the identification and management of strategic risks, service area risks, project, partnership and **shared service** risks. The process is thus embedded throughout the Council.

#### 5. Identifying and recording risks

##### 5.1 *Identifying risks*

5.1.1 A risk is an event that may occur, which will have an impact on the Council’s services, or the achievement of its objectives and priorities. This strategy requires

the Council to identify strategic, service area (i.e. operational), project, partnership and **shared service** risks.

5.1.2 Types of risks are listed in **Annex A**. While not exhaustive, the list provides a starting point for identifying potential risks, including reputational risks, at both strategic and service area levels, as well as for projects, partnerships and **shared services**.

5.1.3 Further illustrations of some of the risks that should be considered when taking strategic decisions are suggested in **Annex B** (again, the categories are neither prescriptive nor exhaustive).

## 5.2 **Recording risks**

5.2.1 Identified risks shall be recorded in the relevant strategic or service area risk register, project, partnership or **shared service** risk register, as set out in paragraphs 5.2.2 to 5.2.10 below, with risks described in terms of: the risk event (i.e. what could happen), the consequence that it might lead to for service(s)/ Aim(s)/ Action(s), and the possible outcome(s) that could result.

### Strategic Risk Register

5.2.2 The strategic risk register CorVu report template is attached at **Annex C**. The Head of Finance, Policy & Performance (HFPP), on behalf of the Executive Director Corporate Services, shall record in the strategic risk register the top risks facing the Council from a corporate perspective, noting for each risk:

- relevant **Objectives** in the current Corporate Plan;
- the person nominated as the responsible “Risk Owner”;
- “Target” and “Actual” Risk Scores resulting from assessed Impact and Likelihood scores (see 6.1.1 below);
- Control measures to address / sources of assurance over the risk;
- for risks assessed above the Council’s risk tolerance line (see 6.2.2 below), the “Timescale to progress”, i.e. the Month/ Year by which it is planned to mitigate the risk to below the line.

(Note: “Target” risk scores are only for CorVu to measure whether risk scores have increased, decreased, or stayed the same and apply a Red / Amber / Green colour coding accordingly – see 5.2.6 below.)

5.2.3 Control measures are defined as actions to reduce either the likelihood of the risk occurring, or the potential impact of it materialising. Control measures may be either already in place, or additional ones considered necessary to manage the risk.

5.2.4 Sources of assurance are defined as evidence that control measures in place to mitigate a risk are operating effectively. Sources of assurance can include documents, reports, performance indicators or other methods of verification; independent and substantiated evidence provides the strongest assurance.

5.2.5 The “Timescale to Progress” shall also note control measures / sources of assurance that are not yet in place, with expected dates where appropriate.

5.2.6 The CorVu report enables monitoring of movement in strategic risk scores, where Red / Amber / Green means:

	<u>for risks previously above the Council's risk tolerance line</u>	<u>for risks previously below the Council's risk tolerance line</u>
Red:	<ul style="list-style-type: none"> <li>the score has increased</li> </ul>	<ul style="list-style-type: none"> <li>the score has increased to above the line</li> </ul>
Amber:	<ul style="list-style-type: none"> <li>the score has not changed, or has decreased but stays above the line</li> </ul>	<ul style="list-style-type: none"> <li>the score has increased but stays below the line</li> </ul>
Green:	<ul style="list-style-type: none"> <li>the score has decreased to below the line</li> </ul>	<ul style="list-style-type: none"> <li>the score has not changed, or has decreased</li> </ul>

#### Service area risk registers

- 5.2.7 The service area risk register template is attached at **Annex D**. Directors shall record in their service area risk registers potential operational risks affecting the services for which they are responsible, noting for each risk:
- relevant **Objectives** in the current Corporate Plan;
  - Control measures to address / sources of assurance over the risk, already in place;
  - the assessed Impact and Likelihood scores and resulting Total scores (see 6.1.1 below);
  - the Direction of Travel of the risk (i.e. whether the risk is “new” or the Impact and Likelihood assessments have stayed the same, reduced or increased);
  - the person nominated as the responsible “Risk Owner”;
  - the Review Frequency, i.e. the frequency at which the control measures/ sources of assurance are reviewed;
  - Additional control measures / sources of assurance considered necessary to manage the risk;
  - Additional resources/cost required to manage the risk;
  - any Adjusted risk score resulting from re-evaluation of the Impact and Likelihood taking the additional control measures / sources of assurance into account;
  - for risks assessed above the the Council's risk tolerance line, the “Timescale to progress”, i.e. the Month/ Year by which it is planned to mitigate the risk to below the line.

#### Project risk registers

- 5.2.8 The Council shall require projects (see section 8.2 below) to use the same format as the service area risk register template. The Project Management Toolkit reflects this and guidance is available within the Toolkit.

#### Partnership risk registers

- 5.2.9 The Council shall encourage partnerships (see section 8.3 below) to use the same format as the service area risk register template; however, the Council acknowledges that a partnership may choose to use another format appropriate to its needs. If a partnership chooses not to use the same format, the Council's lead officer for that partnership shall liaise with the HFPP for guidance on how to structure the risk register/log. Guidance is also available in the Partnership Toolkit.

## Shared Service risk registers

5.2.10 The Council shall encourage shared service projects to use the same format as the service area risk register template, both while the project is being developed and when it becomes operational; however, the Council acknowledges that a shared service project/arrangement may choose to use another format. If a shared service project/arrangement chooses not to use the same format, the Council's lead officer for that project shall liaise with the HFPP for guidance on how to structure the risk register/log. Guidance is also available in the Project Management and Partnership Toolkits.

## **6. Assessing and prioritising risks**

### **6.1 Assessing risks**

6.1.1 At both strategic and service area levels and for projects, partnerships and shared services, nominated risk owners shall assess each of the identified risks in terms of the likelihood of the risk occurring and the potential impact of it materialising, according to the guidelines in **Annex E** and **Annex F**, respectively.

### **6.2 Prioritising risks**

6.2.1 Directors, project managers, partnership lead officers and shared service project managers / lead officers shall use a matrix of these assessments to rank risks in order (see **Annex G**), enabling the Council to make decisions about their significance and prioritise action. The numbers in the matrix boxes represent Total risk scores, obtained by multiplying the Impact score by the Likelihood score. The Total risk scores indicate the order of priority of assessed risks. Directors, project managers, partnership lead officers and shared service project managers / lead officers shall re-schedule the risk registers in line with the order resulting from the prioritisation matrix. (Where the same Total risk score can be obtained in more than one area of the matrix, the Impact score shall take priority over the Likelihood score.)

6.2.2 The dotted line running through the matrix (- - - - -) shows the Council's risk tolerance line, between the level of risk the Council is prepared to accept without putting in place additional control measures / sources of assurance and the level at which risks are considered to require further action.

6.2.3 The Council's risk appetite is defined thus: "The Council shall ensure that all risks identified are appropriately managed; however, it shall require further attention to be given to:

- risks having an Extreme or High impact, with a likelihood of Possible or higher; and
- risks having a Medium impact, with a likelihood of Likely or higher."

6.2.4 Those assessed risks that fall above the Council's risk tolerance line are considered to require further action to reduce either the likelihood of the risk occurring or its impact if and when it does occur; nominated risk owners shall identify and record additional control measures / sources of assurance for these risks (see 7.1 below).

## **7. Managing risks**

7.1 Risks above the Council's risk tolerance line (i.e. with a Total risk score of 12 or higher) require additional control measures / sources of assurance to be put in place to manage them, e.g.:

- active management (including considering terminating the activity or project);
  - contingency plans – robust plans in place to detect any variation from expectations; and/or
  - mitigation to reduce likelihood (if cost effective).
- 7.2 At the strategic level, risk owners (i.e. the officers named in the strategic risk register) shall work with the HFPP to develop and implement additional control measures / sources of assurance for managing risks assessed above the Council’s risk tolerance line. Where additional control measures / sources of assurance affect other Aims and/or Objectives, services, projects or partnerships, require additional resources or will incur additional costs, risk owners shall agree these with the managers/officers concerned.
- 7.3 At the service area level, service managers shall develop and implement additional control measures / sources of assurance for managing risks assessed above the Council’s risk tolerance line. Managers shall re-evaluate the Impact and Likelihood scores taking the additional control measures / sources of assurance into account, recording any changes to the scores in the ‘Adjusted risk score’ column. Where additional control measures / sources of assurance affect other Aims and/or Objectives, services, projects or partnerships, require additional resources or will incur additional costs, service managers shall discuss these with the managers/officers concerned.
- 7.4 Project managers and partnership lead officers shall manage project and partnership risks in accordance with their project/partnership governance arrangements. Shared service project managers / lead officers shall manage shared service project/arrangement risks in accordance with the governance arrangements.
- 7.5 Directors, project managers, partnership lead officers and shared service project managers / lead officers shall reassess risks below the Council’s risk tolerance line (i.e. with a Total risk score of 10 or lower) quarterly to ensure there is no change to the underlying risk or control measures / sources of assurance.
- 7.6 When an appropriate review meeting (see 8.1.2 below) considers that a risk has been “managed”, i.e. it either no longer exists, or it is now an integral part of day to day management of the service area concerned, the meeting shall agree to remove the risk from the relevant risk register.

## 8. Reviewing and reporting risks

### 8.1 Reviewing risks

- 8.1.1 Reviews of risk registers shall include consideration of any new risks. Approval of risk registers shall include both the acceptance of new risks and also the removal of risks considered to be “managed”.
- 8.1.2 Risks are reviewed at service planning, corporate management teams, Executive Management Team (EMT), Corporate & Customer Services Portfolio Holder, project management, partnership and shared service meetings, as appropriate:
- EMT shall review the strategic risk register quarterly, including consideration of the impact and likelihood assessments and the control measures / sources of assurance in place to address risks, recommending its approval to the Corporate & Customer Services Portfolio Holder.



- The Corporate & Customer Services Portfolio Holder shall similarly review and approve the strategic risk register quarterly.
- Directors shall review and approve their service areas' risk registers, collated to give a comprehensive set of risks coming under their responsibility and to enable moderation of impact and likelihood assessments, as part of the annual preparation of service plans. Service area risk registers shall be on departmental management team meeting agendas for review at least quarterly. The Executive Director (Corporate Services) shall similarly review and approve the collated risk registers for service areas reporting direct to him.
- Project managers, partnership lead officers and shared service project managers / lead officers shall facilitate the review and approval of the risk logs/register for which they are responsible, at frequencies set out in their project, partnership plans or shared service arrangements.

8.1.3 Should a significant risk arise between reviews, the relevant director, manager or officer shall consider it with the HFPP for inclusion on the appropriate risk register and the HFPP shall inform the relevant director accordingly.

## 8.2 **Project risks**

8.2.1 Projects, such as those of a corporate or significant service nature, major ICT related projects, shared services, etc, are required to have their own risk registers, using the same format as the service area risk register template (see paragraph 5.2.7 above). Project managers shall review project risk registers in accordance with their project management arrangements.

## 8.3 **Partnership risks**

8.3.1 This strategy covers the way that the Council manages the risks facing it in the delivery of its services and the achievement of its objectives and priorities. Where these are delivered in partnership with other organisations, the application of this strategy may extend outside the Council's direct control.

8.3.2 The Council has an understanding of its involvement with the partnerships in which it participates and the implications of that involvement in each partnership. Equally, each partnership has an understanding of the Council's role in the partnership.

8.3.3 Lead officers of partnerships shall adopt a two stage approach to risk management:

- (a) Identify and assess, from the Council's perspective, the risks that face the Council from participating in the partnership. This analysis shall identify the controls and contingency plans (including an appropriate exit strategy) that are or should be in place. This will be informed by the extent to which the partnership has effective controls and risk management procedures in place and whether it is able to provide the Council with the relevant assurances in this regard.
- (b) Champion effective risk and performance management procedures within the partnership (including the risk of fraud and corruption), so that the threats to the achievement of the partnership's objectives are properly identified, assessed and managed.

8.3.4 Partnership lead officers shall review partnership risk registers in accordance with the partnerships' governance arrangements. Similarly, shared service lead officers shall review shared service arrangements risk registers in accordance with the shared services' governance arrangements.

## 8.4 **Links**

- 8.4.1 When reviewing the strategic risk register, EMT may cascade a strategic risk to an appropriate service area, project, partnership or **shared service** risk register, so that the relevant service manager, project manager, partnership lead officer or **shared service project manager / lead officer** can take a corporate lead on managing it.
- 8.4.2 When reviewing their service area risk registers, service managers and directors / the Executive Director (Corporate Services), may escalate a service area risk for EMT to consider including in the strategic risk register, if the risk is significant (i.e. has a score of 12 or more, and especially if it is a new risk) or has a corporate nature. The HFPP may similarly escalate a risk if it, or a similar one, is being recorded in more than one service area risk register.
- 8.4.3 The strategic risk register may also include project, partnership and **shared service** risks, if these are of a corporate or significant nature. The project / partnership / **shared service** risk registers shall record the detailed risks and control measures / sources of assurance relating to the particular project / partnership / **shared service**.
- 8.4.4 The HFPP shall facilitate these links. The HFPP shall also keep a record of the risks included in the strategic risk register and the impact and likelihood assessments of them, so that the priority of identified strategic risks can be tracked over time.

## 8.5 **Reporting risks**

- 8.5.1 The HFPP shall report the draft strategic risk register to EMT quarterly, for review and recommendation to the Corporate & Customer Services Portfolio Holder. These reports shall show only risks with a total score of 5 or more (risks scoring 4 or less will still be on the strategic risk register, just not included in the reports). (Corporate Governance Committee shall review the adequacy of this as part of its annual review of the risk management strategy and process, as described in 8.5.11 below. Corporate Governance Committee may report to full Council, if the Committee considers it necessary to ensure that strategic risks are appropriately managed.)
- 8.5.2 Directors / the Executive Director (Corporate Services) shall record service area risks above the Council's risk tolerance line in the Overview section of their service plans published annually. They shall update their service area risk registers and control measures / sources of assurance to the HFPP quarterly, for EMT to consider in its quarterly review of the strategic risk register.
- 8.5.3 In addition, EMT shall review service area risk registers, collated by corporate area/direct reports, on a rolling programme throughout the year. These reports shall show only risks with a total score of 5 or more (risks scoring 4 or less will still be on the service area risk registers, just not included in the reports). EMT shall review the HRA Business Plan risk register alongside the Affordable Homes risk register. As part of these reviews, EMT shall consider whether to include risks scoring 12 or more in the strategic risk register. (It shall be assumed not, unless minuted otherwise.)
- 8.5.4 Relevant director(s) / the Executive Director (Corporate Services) shall provide on request from a portfolio holder a briefing/update on the service area risk register(s) appropriate to that portfolio.
- 8.5.5 Project managers, partnership lead officers and **shared service project managers / lead officers** shall report project, partnership and **shared service** risk registers in accordance with their project management/governance arrangements and reporting

frequencies. Project managers, partnership lead officers and shared service project managers / lead officers shall update their risk registers, including control measures / sources of assurance, to the HFPP quarterly, for EMT to consider in its quarterly review of the strategic risk register.

8.5.6 The HFPP shall provide updates of risk registers to the Council's insurance officer, to facilitate discussion of insurance cover and negotiation of any premium discounts or reductions with the Council's insurers.

8.5.7 If a risk materialises, it shall be reported as follows:

- strategic: a report to the next meeting of EMT by the risk owner, in conjunction with the HFPP, outlining the event that occurred, the consequence for the service, objective or priority and the outcome that resulted, together with recommendations for the application of any lessons to be learnt;
- service area: a similar report to the service manager by the risk owner;
- EMT or the service manager, as appropriate, shall decide how to implement any recommendations regarding lessons to be learnt;
- project, partnership or shared service: a similar report by the project manager partnership lead officer or shared service project manager / lead officer; decisions about implementing any recommendations regarding lessons to be learnt shall be taken in accordance with the project management partnership or shared service governance arrangements.

8.5.8 Reports to Members contain as standard a Risk Management Implications section. Report writers use this section to describe risks associated with the report's proposals, possible consequences, the likelihood and potential impact of the risk occurring. Where the risk is assessed above the Council's risk tolerance line, report writers also outline the additional actions that shall be taken to mitigate the risk and copy the report to the HFPP, so that the risk can be incorporated in the strategic risk register, relevant service area risk register, project, partnership or shared service risk register, as appropriate. Directors/report writers shall fully brief Members on risks identified in the report.

8.5.9 Reports to Members also include as standard, Options and Financial Implications sections. Where reports relate to major options appraisal or capital investment decisions, report writers shall also review relevant risk registers, to identify any risks for inclusion in the report.

8.5.10 Positive aspects of the matter under consideration are generally described in the body of the report to Members, alongside the various "Implications" sections (Financial, Legal, Staffing, Equality & Diversity, Climate Change). Report writers may also use the Risk Management Implications section to highlight any positive risks (opportunities) not mentioned elsewhere in the report.

8.5.11 The HFPP shall report to EMT on the risk management strategy and process (including staffing resources) annually, or if there is a material change during the year, for EMT to review the strategy and process and make any recommendations regarding them to Corporate Governance Committee. (The HFPP shall similarly invite the Corporate & Customer Services Portfolio Holder to review the risk management strategy and process and recommend changes.) Corporate Governance Committee shall review and approve changes to the risk management strategy and process annually, or if there is a material change during the year.

## **9. Communication and learning**

### **9.1 Communication**

9.1.1 The HFPP shall give relevant staff and Members timely guidance and advice relating to their risk management responsibilities, including particular aspects such as review of risk registers.

9.1.2 The HFPP shall also keep staff and Members informed through a risk management page on In-Site, the Council's intranet, which shall include the following:

- the risk management strategy,
- the latest version of the strategic risk register,
- the latest versions of service area risk registers;
- guidance and advice concerning risk management, including assessment criteria for the potential impact and likelihood of risks occurring;
- risk management templates.

### **9.2 Learning**

9.2.1 The Council shall keep its risk management strategy and processes up to date by learning from a variety of sources:

- applying best practice from other local authorities and organisations, as appropriate;
- ascertaining whether risk management matters identified in one service area also apply elsewhere across the Council;
- learning from any mistakes;
- providing relevant training for appropriate staff and Members (including at least a refresher session annually), facilitated by external specialists if necessary:
  - EMT shall decide the risk management training for staff, following a recommendation by the HFPP;
  - The Chairman of the Corporate Governance Committee and the Corporate & Customer Services Portfolio Holder (the portfolio holder responsible for both risk management and for Member development), shall decide the risk management training for Members, following a recommendation from EMT;
  - The HFPP shall keep a record of risk management training attended by staff and Members;
  - Corporate Governance Committee shall review risk management training and the attendance records annually, to ensure that capabilities remain adequate.

(Note: Funding for external training is currently available under the Council's insurance contract.)

## **10. Organisational arrangements**

10.1 All staff, at every level, have a role to play in risk management, since they are often best placed to identify many of the risks faced by the Council. All staff therefore have a responsibility to identify and minimise risk. This includes taking prompt remedial action on adverse events and near misses, when necessary, and the reporting of these to their line managers and/or through the relevant form. Staff also have a responsibility to follow Council policies and procedures designed to manage risk and maintain a general level of risk awareness.

- 10.2 The prompt alerting of something going wrong can help prevent a situation from becoming worse. Staff are therefore encouraged to alert their line manager to potential risks at the earliest opportunity, without the fear of blame being attributed as a result. This will enable action to be taken as soon as possible to reduce either the likelihood of the risk occurring or the possible effects of it doing so and also promote a culture of openness, transparency and support.
- 10.3 A chart summarising the Council's arrangements for risk management is shown in ***Annex H***.

## **Annex A**

### **The scope of risk; areas to consider**

Political / Reputation

Partnership

Governance

Economic

Social

Technological

Legislative / Regulatory

Environmental

Competitive

Customer / Citizen

Managerial / Professional

Fraud / Corruption

Financial

Legal / Contractual

Physical

Health & Safety

Performance

## Annex B

### Some of the risks to consider when making strategic decisions

The following categories are neither prescriptive nor exhaustive, but illustrate some of the risks Members should consider when taking strategic decisions.

**Strategic political risks** - associated with failure to deliver either local or central government policy, or to meet the Council's commitments. Includes things such as:

- Wrong strategic priorities
- Not meeting the government's agenda
- Decisions based on faulty or incomplete information
- Too slow to innovate/modernise
- Unfulfilled promises to electorate
- Community planning oversights/errors

**Strategic economic risks** - affecting the ability of the Council to meet its financial commitments. Includes things such as:

- Internal budgetary pressures
- Inadequate insurance cover
- External macro level economic changes (e.g. interest rates, inflation)
- The consequences of proposed investment decisions
- General/regional economic problems
- High cost of capital
- Treasury risk
- Missed business and service opportunities
- Failure to meet efficiency targets

**Strategic social risks** - relating to the effects of changes in demographic, residential or socio-economic trends on the Council's ability to deliver its objectives. Includes things such as:

- Failing to meet the needs of a disadvantaged community
- Impact of demographic change
- Failures in partnership working
- Problems in delivering life-long learning
- Crime and disorder

**Strategic technological risks** - associated with the capacity of the Council to deal with the pace/scale of technological change, or its ability to use technology to address changing demand. They may also include the consequences of internal technological failures on the Council's ability to deliver its objectives. Includes things such as:

- Obsolescence of technology
- Hacking or corruption of data
- Breach of confidentiality associated with technology / systems
- Failure in communications

**Strategic legislative risks** - associated with current or potential changes in national or European law. Includes things such as:

- Inadequate response to new legislation

- Intervention by regulatory bodies and inspectorates
- Judicial review
- Human Rights Act, Disability Discrimination Act etc. breaches

**Strategic environmental risks** - relating to the environmental consequences of progressing the Council's corporate objectives or service priorities (e.g. in terms of energy, efficiency, pollution, recycling, landfill requirements, emissions etc). Includes things such as:

- Noise, contamination and pollution
- Impact of planning and transport policies
- Climate change
- Flood defences

**Strategic competitive risks** - affecting the competitiveness of the service (in terms of cost or quality) and/or its ability to deliver best value. Includes things such as:

- Takeover of services by government/agencies
- Failure to show best value and/or value for money
- Failure of bids for government funds
- Inadequate expertise to write tight tender documents and contracts

**Strategic customer/citizen risks** - associated with failure to meet the current and changing needs and expectations of customers and citizens. Includes things such as:

- Lack of appropriate consultation
- Bad public and media relations
- Breach of confidentiality



Annex C Strategic Risk Register CorVu report template

Strategic Risk Register

[Date] (Month Year)

[changes highlighted]

[Note: Strategic Risk Registers reported to EMT or PFH only show risks with a total score of 5 or more (risks scoring 4 or less are still on the Strategic Risk Register, but are not included in the reports).]  
Risks removed since the last time EMT reviewed the risk register are shown greyed out at the end.



Risk Reference, Title and Description, plus associated Objectives The risk event, leading to consequence for service/ Aim(s)/ Action(s), resulting in possible outcome(s). Plus associated 3 A's. [and see Note 1]	Risk Owner	Risk Score		Risk Owner's Comments
		Target	Actual [3]	
<b>Reference - Title</b> The risk event, leading to consequence for service/ Aim(s)/Action(s), resulting in possible outcome(s).	Risk owner			IMPACT SCORE: X. LIKELIHOOD SCORE: Y. CONTROL MEASURES / SOURCES OF ASSURANCE: Detail. TIMESCALE TO PROGRESS: Detail.
Associated Objectives				
<b>Reference - Title</b> The risk event, leading to consequence for service/ Aim(s)/Action(s), resulting in possible outcome(s).	Risk owner			IMPACT SCORE: X. LIKELIHOOD SCORE: Y. CONTROL MEASURES / SOURCES OF ASSURANCE: Detail. TIMESCALE TO PROGRESS: Detail.
Associated Objectives				
<b>Reference - Title</b> The risk event, leading to consequence for service/ Aim(s)/Action(s), resulting in possible outcome(s).	Risk owner			IMPACT SCORE: X. LIKELIHOOD SCORE: Y. CONTROL MEASURES / SOURCES OF ASSURANCE: Detail. TIMESCALE TO PROGRESS: Detail.
Associated Objectives				
<b>Reference - Title</b> The risk event, leading to consequence for service/ Aim(s)/Action(s), resulting in possible outcome(s).	Risk owner			IMPACT SCORE: X. LIKELIHOOD SCORE: Y. CONTROL MEASURES / SOURCES OF ASSURANCE: Detail. TIMESCALE TO PROGRESS: Detail.
Associated Objectives				

Corporate Plan Aims and Objectives

Impact Likelihood Notes

- Risks are cross referenced to the relevant Corporate Plan Objectives adopted by Council on 27 February 2014 with effect from 1 April 2014, e.g. (1), (3) etc. Where risks relate to previous objectives since embedded, the cross-referencing is to the relevant 2014/15 Corporate Plan Aim.
- 5 Extreme
  - 4 High
  - 3 Medium
  - 2 Low
  - 1 Insignificant
- 5 Almost certain
  - 4 Likely
  - 3 Possible
  - 2 Unlikely
  - 1 Rare
1. The "Reference" is a unique risk reference, retained by the risk throughout the period of its inclusion in the risk register.
  2. Criteria and guidelines for assessing "Impact" and "Likelihood" are available on In-Site.
  3. The "Actual" risk score is obtained by multiplying the Impact score by the Likelihood score.
  4. The dotted line (- - - - -) shows the Council's risk tolerance line.
  5. The "Timescale to progress" is the date (Month Year) by which it is planned to mitigate the risk to below the line.

Red / Amber / Green shading in the Actual Column indicates the following movement in risk scores:

	Red	Amber	Green
for risks previously above the line:	the score has increased	the score has not changed, or has decreased but stays above the line	the score has decreased to below the line
for risks previously below the line:	the score has increased to above the line	the score has increased but stays below the line	the score has not changed, or has decreased

Annex D Service Area Risk Register template

[Name of Service Area] Risk Register

[Date] (Month Year)

[Numbers in header rows refer to Notes at the end of the document]

**EMT shall consider whether any risks scoring 12 or more should be included in the Strategic Risk Register.**

Service area risk registers reported to EMT only show risks with a total score of 5 or more.

Changes to previous wording are shown as highlighted text.

Risks removed since the last time EMT reviewed the risk register are shown greyed out at the end.



Ref. [1]	Title and Description of risk for service/ Aim(s)/ Action(s), resulting in possible outcome(s).	3 A's [2]	Control measures/ sources of assurance in place	Risk score [3, 4]	Direction of travel	Risk owner / Review frequency	Additional control measures/sources of assurance	Additional cost resources required	Adjusted risk score (where relevant) [5]	Timescale to progress [7]
	<b>Title</b> The risk event, leading to consequence for service/ Aim(s)/Action(s), resulting in possible outcome(s).			Impact Likelihood Total	→ ( ) new	Risk owner / Review frequency			5	7
	<b>Title</b> The risk event, leading to consequence for service/ Aim(s)/Action(s), resulting in possible outcome(s).			Impact Likelihood Total	→ ( ) new	Risk owner / Review frequency			Impact Likelihood Total	
	<b>Title</b> The risk event, leading to consequence for service/ Aim(s)/Action(s), resulting in possible outcome(s).			Impact Likelihood Total	→ ( ) new	Risk owner / Review frequency			Impact Likelihood Total	
	<b>Title</b> The risk event, leading to consequence for service/ Aim(s)/Action(s), resulting in possible outcome(s).			Impact Likelihood Total	→ ( ) new	Risk owner / Review frequency			Impact Likelihood Total	

Notes

- The "Ref." is a unique risk reference, retained by the risk throughout the period of its inclusion in the risk register.
- Risks are cross referenced to the relevant Corporate Plan Objectives adopted by Council on 27 February 2014 with effect from 1 April 2014, e.g. (1), (3) etc. Where risks relate to previous objectives since embedded, the cross-referencing is to the relevant 2014/15 Corporate Plan Aim.
- Criteria and guidelines for assessing Impact and Likelihood are available on In-Site.
- The "Total" risk score is obtained by multiplying the Impact score by the Likelihood score.
- The "Adjusted risk score" would result from re-evaluation of the Impact and Likelihood taking the additional control measures / sources of assurance into account.
- The dotted line (-----) shows the Council's risk tolerance line.
- The "Timescale to progress" is the date (usually Month Year) by which it is planned to mitigate the risk to below the line.

Direction of Travel

- Impact
- 5 Extreme
  - 4 High
  - 3 Medium
  - 2 Low
  - 1 Insignificant
- Likelihood
- 5 Almost certain
  - 4 Likely
  - 3 Possible
  - 2 Unlikely
  - 1 Rare
- Priority reduced from last review  
(give the previous Total score in the brackets)
- Priority increased from last review  
(give the previous Total score in the brackets)
- Risk included in the risk register for the first time

## Annex E Likelihood assessment guidelines

<b>Likelihood</b>	<b>Guidelines</b>	<b>Score</b>
Almost certain	<ul style="list-style-type: none"> <li>• Is expected to occur in most circumstances (more than 90%), or</li> <li>• Could happen in the next year, or</li> <li>• More than 90% likely to occur in the next 12 months</li> </ul>	5
Likely	<ul style="list-style-type: none"> <li>• Will probably occur at some time, or in most circumstances (66% - 90%), or</li> <li>• Could happen in the next 2 years, or</li> <li>• 66% to 90% likely to occur in the next 12 months</li> </ul>	4
Possible	<ul style="list-style-type: none"> <li>• Fairly likely to occur at some time, or in some circumstances (36% - 65%), or</li> <li>• Could happen in the next 3 years, or</li> <li>• 36% to 65% likely to occur in the next 12 months</li> </ul>	3
Unlikely	<ul style="list-style-type: none"> <li>• Is unlikely to occur, but could, at some time (11% - 35%), or</li> <li>• Could happen in the next 10 years, or</li> <li>• 11% to 35% likely to occur in the next 12 months</li> </ul>	2
Rare	<ul style="list-style-type: none"> <li>• May only occur in exceptional circumstances (up to 10%), or</li> <li>• Unlikely to happen in the next 10 years, or</li> <li>• Up to 10% likely to occur in the next 12 months</li> </ul>	1

**Annex F Impact assessment guidelines**

<b>Impact</b>	<b>Giving rise to one or more of the following:</b>										<b>Score</b>
	<b>Service disruption</b>	<b>People</b>	<b>Financial loss (including claim or fine)</b>	<b>Environment</b>	<b>Statutory service/ legal obligations</b>	<b>Management</b>	<b>Reputation</b>				
Extreme	Serious disruption to services (loss of services for more than 7 days)	Loss of life	Financial loss over £500k	Major regional / national environmental damage	Central government intervention; or Multiple civil or criminal suits	Could lead to resignation of Leader or Chief Executive	Extensive adverse coverage in national press and/or television	5			
High	Major disruption to services (loss of services for up to 7 days)	Extensive multiple injuries	Financial loss between £251k - £500k	Major local environmental damage	Strong regulatory sanctions; or Litigation	Could lead to resignation of Member or Executive Director	Adverse coverage in national press and/or television	4			
Medium	Noticeable disruption to services (loss of services for up to 48 hours)	Serious injury (medical treatment required)	Financial loss between £51k - £250k	Moderate environmental damage	Regulatory sanctions, interventions, public interest reports; or Litigation	Disciplinary / capability procedures invoked	Extensive adverse front page local press coverage	3			
Low	Some disruption to internal services; no impact on customers	Minor injury (first aid)	Financial loss of between £6k - £50k	Minor environmental damage	Minor regulatory consequences; or Litigation	Formal HR procedure invoked	Some local press coverage; or, adverse internal comment	2			
Insignificant	Insignificant disruption to internal services; no impact on customers	No injuries	Financial loss of up to £5k	Insignificant environmental damage	No regulatory consequences; or Litigation	Informal HR procedure invoked	No reputational damage	1			

**Annex G      Prioritisation Matrix template**

			IMPACT				
			Insignificant	Low	Medium	High	Extreme
			1	2	3	4	5
LIKELIHOOD	Almost certain	5	5	10	15	20	25
	Likely	4	4	8	12	16	20
	Possible	3	3	6	9	12	15
	Unlikely	2	2	4	6	8	10
	Rare	1	1	2	3	4	5

----- Risk Tolerance Line

**Managing the risk**

[Note: The score is obtained by multiplying the Impact by the Likelihood (e.g. Impact: High; Likelihood: Possible, would result in a score of 12 - i.e. 4 x 3).]

Above the Council's risk tolerance line (i.e. a score of 12 – 25):

Requires active management (consider termination of the activity or project)

Contingency plans – robust plan in place to detect any deviation from expectations

May require some mitigation to reduce likelihood (if cost effective)

Below the Council's risk tolerance line (i.e. a score of 1 – 10):

Reassess quarterly to ensure no change to underlying risk or control measures / sources of assurance

**Annex H      Chart summarising the Council's arrangements for risk management**

***Corporate Governance Committee***

The general functions that come under the responsibility of the Committee include:

- To review and advise the Council on the embedding and maintenance of an effective system of corporate governance, risk management and internal control.
- To give assurance to the Council that there is a sufficient and systematic review of the corporate governance, risk management and internal control arrangements within the Council.

With regard to risk management, the Committee:

- Reviews and approves the risk management strategy and process annually, updating them if necessary.
- This annual review shall include considering the adequacy of the quarterly reviews of the strategic risk register by the Corporate & Customer Services Portfolio Holder.
- Receives relevant training, as and when appropriate.
- The Committee may report to full Council, if considered necessary to ensure that strategic risks are appropriately managed.

***Executive***

- The Corporate & Customer Services Portfolio Holder is the lead Member for risk management.
- The Corporate & Customer Services Portfolio Holder reviews the risk management strategy and process annually, recommending changes to Corporate Governance Committee if necessary.
- The Corporate & Customer Services Portfolio Holder reviews and approves the strategic risk register quarterly.
- A portfolio holder may request a briefing/update from relevant director(s) / the Executive Director (Corporate Services) on the service area risk register(s) appropriate to their portfolio.
- Receives relevant training, as and when appropriate.

***Notes:***

- The Chairman of the Corporate Governance Committee and the Corporate & Customer Services Portfolio Holder decide the risk management training for Members, following a recommendation from EMT.

### ***Executive Management Team (EMT)***

- Reviews the risk management strategy and process annually, recommending changes to Corporate Governance Committee if necessary.
- Reviews the strategic risk register quarterly; recommends the strategic risk register to the Corporate & Customer Services Portfolio Holder.
- May cascade a strategic risk to an appropriate service area risk register.
- Reviews service area risk registers, collated by corporate area/direct reports, on a rolling programme throughout the year.
- Considers reports on strategic risks that occur and decides how to implement lessons learnt.
- Promotes and champions risk management.
- Decides risk management training for staff, following a recommendation from the Head of Finance, Policy and Performance (HFPP); recommends training to Corporate Governance Committee.
- The Executive Director (Corporate Services) is the senior manager responsible for risk management.

### ***“Risk owners”***

(Note: The “risk owner” is the person nominated as the lead officer responsible for risks identified in risk registers.)

At the strategic level:

- Work with the HFPP to develop and implement control measures / sources of assurance for managing strategic risks, including additional control measures / sources of assurance for risks assessed above the Council’s risk tolerance line.
- Report strategic risks materialising, in conjunction with the HFPP, to the next meeting of EMT, recommending the application of any lessons to be learnt.

At the service area level:

- Work with the service manager to develop and implement control measures / sources of assurance for managing service area risks, including additional control measures / sources of assurance for risks assessed above the Council’s risk tolerance line.
- Report service area risks materialising to the service manager.

***Service managers***

- Review service area risk registers alongside service plans annually, reporting risks above the Council's risk tolerance line in published service plans, and at quarterly intervals.
- Respond to portfolio holder requests for briefings/updates on service area risk register(s).
- Where strategic risks are cascaded to a service area risk register, take a corporate lead on managing the risk.
- May escalate a service area risk for EMT to consider including in the strategic risk register.
- Implement control measures / sources of assurance to manage service area risks.
- Update the HFPP quarterly regarding service area risk registers and control measures / sources of assurance.
- Consider reports on service area risks that occur and decide how to implement lessons learnt.
- Have primary responsibility for managing risks in their service areas, since they are best-placed to determine the appropriate actions to minimise risks to their customers, staff, services or budgets.

***Project managers***

- Review project risk registers at frequencies set out in project plans, reporting these in line with project management arrangements.
- Update the HFPP quarterly regarding project risk registers, including control measures / sources of assurance.
- Report project risks materialising, in accordance with project management arrangements.

***Partnership lead officers***

- Review partnership risk registers at frequencies set out in partnership plans, reporting these in line with governance arrangements.
- Update the HFPP quarterly regarding partnership risk registers, including control measures / sources of assurance.
- Report partnership risks materialising, in accordance with governance arrangements.

***Shared service project managers / lead officers***

- Review shared service risk registers at frequencies set out in shared service project plans / operational arrangements, reporting these in line with governance arrangements.
- Update the HFPP quarterly regarding shared service risk registers, including control measures / sources of assurance.
- Report shared service risks materialising, in accordance with governance arrangements.



**Head of Finance, Policy and Performance (HFPP)**

- Coordinates EMT's annual review of the risk management strategy and the resulting reports to the Corporate Governance Committee.
- Coordinates EMT's quarterly review of the strategic risk register, and the resulting reports to the Corporate & Customer Services Portfolio Holder.
- Assists nominated risk owners to develop and implement control measures / sources of assurance to manage strategic risks, including additional control measures / sources of assurance for risks assessed above the Council's risk tolerance line.
- Keeps a record tracking the priority of identified strategic risks.
- Assists risk owners to report on strategic risks that occur, together with recommendations regarding any lessons to be learnt.
- Coordinates directors' reviews of collated service area risk registers, quarterly.
- Reviews service area risk registers to identify risks of a significant, corporate or common nature.
- Facilitates cascade of strategic risks to relevant service area risk registers and escalation of significant, corporate or common service area risks for EMT to consider including in the strategic risk register.
- Links project, partnership and shared service risk registers to the strategic risk register and/or service area risk registers, as appropriate.
- Facilitates inclusion of risks identified in reports to Members, in the appropriate risk register
- Recommends training for staff and Members to EMT.
- Facilitates relevant training, guidance and advice on risk management.
- Communicates risk management matters to staff.

**Notes:**

- Relevant officers' job descriptions shall include responsibility in respect of risk and risk management.
- The management competency framework incorporates risk management.

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